

103
**HISTORICAL TRENDS IN POVERTY AND FAMILY
INCOME**

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Historical Trends in Poverty and Fa...

HEARING
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

OCTOBER 26, 1993

Serial 103-42

Printed for the use of the Committee on Ways and Means



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HISTORICAL TRENDS IN POVERTY AND FAMILY INCOME

TUESDAY, OCTOBER 26, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room B-318, Cannon House Office Building, Hon. Harold E. Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, OCTOBER 14, 1993

PRESS RELEASE #10
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE HAROLD E. FORD (D., TENN.),
CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING ON
HISTORICAL TRENDS IN POVERTY AND FAMILY INCOME

The Honorable Harold E. Ford (D., Tenn.), Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a hearing to examine historical trends in the U.S. poverty rate and family income. The hearing will be held on Tuesday, October 26, 1993, beginning at 10:00 a.m. in room B-318 of the Rayburn House Office Building. Testimony will be received both from invited and public witnesses.

At the hearing, Members of the Subcommittee will have an opportunity to examine the long-term historical trends in family income and poverty, and the factors underlying these trends (including macroeconomic trends, demographic trends, and changes in public policies). In addition, Members are interested in hearing from witnesses about employment, public assistance, and urban policies which could reverse these trends.

BACKGROUND:

On October 4, 1993, the Bureau of the Census, U.S. Department of Commerce, released its annual report on poverty and income in the United States. Although the recession officially ended in March 1991, the number of persons in the United States living in poverty rose for a third year in a row in 1992, to 37 million Americans. Between 1991 and 1992, the poverty rate essentially remained unchanged, at over 14 percent. The poverty rate in the pre-recession year of 1989 was at 12.8 percent, and in that year 31.5 million Americans were poor.

The poverty rate of children remained the highest of any age group in 1992, at almost 22 percent or 14.6 million. Except for the poverty rate in 1983, this is higher than any year since 1964.

In 1992, median household income was \$30,900, roughly the same level as 1991, adjusting for inflation. However, during 1989 and 1990, median household income fell. The end result is that median household income was \$2,000 lower in 1992 than in the pre-recession year of 1989.

Median household income in 1992 varied by demographic group as follows: Whites (\$32,400), African-Americans (\$18,660), Asians and Pacific Islanders (\$38,153), and Hispanic origin (\$22,848).

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler, Diane Kirkland, or Karen Ponzurick [(202) 225-1721] no later than noon Friday, October 22, 1993, to be followed by a formal written request to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

(MORE)

- 2 -

The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Human Resources [(202) 225-1025].

Persons and organizations having a common position are urged to make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing (see formatting requirements below). This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the Subcommittee on Human Resources office, room B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting written statements for the printed record of the hearing should submit at least six (6) copies of their statements by close of business, Tuesday, November 9, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Subcommittee office, room B-317 of the Rayburn House Office Building, before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Chairman FORD. Good morning. The Ways and Means Human Resources Subcommittee will come to order.

I would like to welcome you this morning to the Human Resources Subcommittee for a public hearing on the historical trends in poverty and family income.

On October 4, 1993, the Bureau of the Census, U.S. Department of Commerce, released its annual report on poverty and income in the United States. Although the recession officially ended in March of 1991, the number of persons in the United States living in poverty rose for a third year in a row in 1992 to 37 million Americans.

Between 1991 and 1992 the poverty rate essentially remained unchanged at over 14 percent. The poverty rate in the prerecession year of 1989 was at 12.8 percent and in that year 31.5 million Americans were poor.

The poverty rate of children remained the highest of any age group in 1992, at almost 22 percent or 14.6 million. Except for the poverty rate in 1983, this is higher than any year since 1964.

We have assembled a group of witnesses to testify before this subcommittee today. As many of you already know, this committee is charged with the responsibility of looking at a welfare reform package, and also supplemental security income policies. We have just extended long-term unemployment compensation benefits in the House. It is very clear that for this subcommittee to continue to do its work we must take a very sound look at the trends in poverty in this country.

Growing poverty has been one of the ugliest developments of the past 2 decades. It is an honor for the committee today that Daniel Weinberg of the U.S. Bureau of the Census has come to testify, to outline the different trends in poverty. We will not only hear from the Department of Commerce, the Bureau of the Census, but we also have three panels that will continue the discussion on the trends in poverty.

[Chairman Ford's opening statement follows:]

**Opening Statement of
The Honorable Harold E. Ford, Chairman,
Subcommittee on Human Resources,
Committee on Ways and Means
Hearing on Trends in Poverty and Family Income**

October 26, 1993

Three weeks ago, the Bureau of the Census released its annual report on family income and poverty. The distressing news of the last decade continues, and I fear we have grown accustomed to it. Instead, we should be alarmed at some of the long-term trends and what they mean for the working people of this country - especially families with children and low-skilled workers.

Before 1973, this country enjoyed tremendous income growth and poverty declined substantially. But through the remainder of the 1970s, average family incomes remained flat and actually began to fall in 1979. As a result, the poverty rate grew. It was 11 percent in 1973, but 15 percent in 1983.

A period of sustained economic growth ensued from 1983 to 1990, but not all groups benefited and income inequality has grown. The poverty rate has remained high and is stuck at 14 percent. The poverty rate for children under the age of six is an alarming 25 percent. The poverty rate for African-Americans is 33 percent, and for Hispanics it is 29 percent.

A complicated web of factors helps to explain these numbers, including a changing economy, government policies, and demographic patterns. To address appropriately such important legislative issues as unemployment insurance reform and welfare reform, we must understand the role that these factors play.

Today we will hear from a distinguished group of witnesses, who on short notice have taken time to share their research findings and their policy prescriptions with us. I would like to thank all of the witnesses for joining us today. Your testimony will help us formulate better public policies as the legislative process proceeds.

Chairman FORD. Mr. Grandy is here. If he has an opening statement or remarks, the Chair would be happy to recognize him at this time. Mr. Grandy, I know you just walked in, I don't want to rush you.

Mr. GRANDY. Under the circumstances, it seems I just arrived. I won't delay the panel, but I would like to perhaps make a few comments after Mr. Weinberg testifies.

Chairman FORD. That is fine. Mr. Weinberg, you may proceed with your testimony. Daniel Weinberg, Ph.D., Chief, Housing and Household Economic Statistics Division of the Department of Commerce.

STATEMENT OF DANIEL H. WEINBERG, PH.D., CHIEF, HOUSING AND HOUSEHOLD ECONOMIC STATISTICS DIVISION, U.S. BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE

Mr. WEINBERG. Mr. Chairman and Mr. Grandy, thank you for the opportunity to address you on the topic of income and poverty. This is my Assistant Chief for Economic Characteristics, Mr. Nelson, who will be helping me with charts and with some of the questions.

The information I will summarize in my presentation focuses on historical trends. All historical income data have been corrected for inflation using the Consumer Price Index.

The first chart presents key estimates of median income. There was no change in household median income between 1991 and 1992, but there has been a 5.9 percent decline of \$1,920 between the most recent business cycle peak in 1989 when median household income was \$32,600 and the 1992 level of \$30,786.

Chart 2 shows how this measure has behaved since 1967, typically rising during recoveries and falling or remaining constant during recessions. The pattern for 1989 to 1992 where income fell 5.9 percent is clearly similar to the pattern for 1979 to 1982 where income fell 5.1 percent. Overall median household income has risen 11.5 percent since 1967.

Chart 3 presents the basic poverty information. While the poverty rate for all persons did not change from 1991 to 1992, the number of poor did increase by 1.2 to 36.9 million. The number of poor has increased 5.4 million since 1989 and the poverty rate has increased from 12.8 percent in 1989 to 14.5 percent in 1992.

As with income, this pattern of increase is broadly similar to that of a decade ago. The poverty threshold for a family of four in 1992 was \$14,335. The last time prior to 1991 the poverty rate was as high as 14.5 percent was in 1984 when the rate was 14.4 percent, statistically not different. The last year in which more people were poor than in 1992 was 1962, when 38.6 million were poor.

Children are 40 percent of the poor, though they are but 26 percent of the total population. Their poverty rate is higher than for any other age group, 21.9 percent in 1992. This chart shows poverty rates by age.

During the 1960s, the poverty rate among children declined from a high of 27.3 percent in 1959 to 14 percent in 1969. During the 1970s, 14 to 17 percent of children were poor, with the poverty rate for the elderly going below that for children for the first time. It has remained below. Poverty for children has been at or above 20

percent since the 1980s, peaking at 22.3 percent in 1983, the last cyclical peak in overall poverty. The 1992 rate of 21.9 percent is not different from the 1983 rate.

Families with children are also more likely to be poor than those without children. 17.7 percent of families with children are poor, while only 5.2 percent of families without children are poor. Four-fifths of families in poverty in 1992 had children.

The long-term trend in the United States has been toward increasing income inequality. This chart shows the Gini index, also known as the index of income concentration for household income. Mathematically the Gini index can range from zero, indicating perfect equality of income, to 1, indicating perfect inequality.

This index indicated no change in inequality between 1991 and 1992, but inequality rarely changes from year to year. As shown on the chart, income inequality rose slowly during the 1970s and rapidly during the early 1980s. Since about 1987 though there has been no statistically significant change. The Gini index is now 8.5 percent above its 1967 level.

Another perspective on income inequality can be gained by standardizing income for different family sizes. This was done using the poverty thresholds. In 1992 families in the lower quintile had an average income-to-poverty ratio of 0.91. Thus, on average, families in this quintile were poor—their ratio was less than 1. This has not changed much over time.

In 1967 the ratio was 0.97. At the opposite end of the income distribution the average ratio in the highest income quintile of family income in 1992 was 8.43. That is the average family there had over 8 times the poverty level income. This has changed substantially since 1967 when the ratio was but 6.06. This pattern is additional evidence of increasing income inequality over time as is the increasing share of household income received by the highest income quintile, 46.9 percent in 1992, but only 43.8 percent in 1967.

Let me stop there. I would be glad to take your questions.
[The prepared statement and attachments follow:]

STATEMENT OF DR. DANIEL H. WEINBERG
BEFORE THE SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES
October 26, 1993

Thank you for the opportunity to describe for you the income and poverty statistics for the United States for 1992. These statistics were released by the Department of Commerce on October 4, 1993. The data are from U.S. Bureau of the Census Series P-60 Current Population Reports Numbers 184 ("Money Income of Households, Families, and Persons in the United States: 1992"), 185 ("Poverty in the United States: 1992"), and 186-RD ("Measuring the Effects of Benefits and Taxes on Income and Poverty: 1992").

Data from both the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP) are presented in these reports. The CPS is a sample survey, conducted each month, of approximately 60,000 households nationwide. Its primary purpose is to derive the Nation's monthly employment, unemployment, and labor force statistics. In March of each year, the employment questions are supplemented with a set of questions about the household's economic conditions in the previous calendar year. Thus the data from the March 1993 CPS reflect conditions in 1992, not current conditions. Nor do they reflect the economic situation of the institutionalized or military populations. The SIPP is a longitudinal survey, taken at four-month intervals over a period of 32 months, of approximately 20,000 households nationwide. The latest longitudinal data available from that survey covers the 1990-1992 period.

As in all surveys, the data in these reports are estimates, subject to sampling variability and response errors. Different samples can give different estimates; statisticians can determine the range in which estimates are likely to fall (termed the confidence interval) so that an apparent change can be tested statistically to see if indeed it is a significant change. All statements made in the reports and in this statement have been tested statistically. Further, all historical income data in the reports have been corrected for inflation, as measured by the Consumer Price Index; inflation was 3.0 percent between 1991 and 1992.

Chart 1 presents the key estimates of median income. There was no change in household median income between 1991 and 1992, but there has been a 5.9 percent decline of \$1,920 between the most recent business cycle peak in 1989, when median household income was \$32,706, and the 1992 level of \$30,786. Chart 2 shows how this measure has behaved since 1967 -- typically rising during recoveries and falling or remaining constant during recessions.

sions. The pattern for 1989-1992, where income fell 5.9 percent, is clearly similar to the pattern for 1979-1982, where income fell 5.1 percent. Overall, median household income has risen 11.5 percent since 1967.

Median earnings of female year-round full-time workers increased by 1.3 percent between 1991 and 1992, to \$21,440. This is 71 percent of the earnings of similar male workers, whose median earnings did not change from 1991 to 1992 (\$30,358 in 1992). The 1992 ratio is not statistically different from the all-time high of 72 percent, reached in 1990.

Chart 3 presents the basic poverty information. While the poverty rate for all persons did not change from 1991 to 1992, the number of poor did increase, by 1.2 million, to 36.9 million. The number of poor has increased 5.4 million since 1989 and the poverty rate has increased from 12.8 percent in 1989 to 14.5 percent in 1992. As with income, this pattern of increase is broadly similar to that of a decade ago (1979-1982). The poverty threshold for a family of 4 in 1992 was \$14,335.

Prior to 1991, the last time the poverty rate was as high as 14.5 percent was in 1984, when the rate was 14.4 percent, statistically not different. The last year in which more people were poor than in 1992 was 1962, when 38.6 million were poor.

There were a few characteristics that indicated differences between 1991 and 1992 but the broad outlines of change are remarkably similar. As can be seen in Chart 4, the only region with a significant decline in median household income between 1991 and 1992 was the Northeast, 3.7 percent. It is the region with the largest decline over the 1989-1992 period, 10.1 percent. Nevertheless, the Northeast and the Midwest had the lowest poverty rate in 1992, 12.3 percent and 13.1 percent (Chart 5). The South had the highest poverty rate, 16.9 percent, and the lowest median household income (\$27,741). Two-fifths of the poor lived in the South, but only one-third of the nonpoor U.S. population lived there. The South was also the only region to have an increase in its poverty rate between 1991 and 1992, though it was the only region not to have an increase in poverty between 1990 and 1991. For regions, then, the appropriate perspective is the 1989-1992 period.

As you can see from the next chart [6], there was no change between 1991 and 1992 for any race or ethnic group, as a whole, in median household income or in poverty rates. If one examines the changes for family types within a race or ethnic group, there was a significant increase in the poverty rate between 1991 and 1992 for black married couple-families, from 11.0 to 13.0 percent. However, the 1992 poverty rate for black married-couple families was not significantly different from the pre-recession (1989) poverty rate for these families of 11.8 percent. There was

also an increase for Hispanic male householders (from 18.6 to 27.2 percent). The declines in median household income and increases in poverty for all these groups from 1989 to 1992 were in all cases significant, however.

Children are 40 percent of the poor though they are but 26 percent of the total population. Their poverty rate is higher than for any other age group, 21.9 percent in 1992. Chart 7 shows the poverty rates by age. During the 1960's, the poverty rate among children declined from a high of 27.3 percent in 1959 to 14.0 percent in 1969. During the 1970's, 14-17 percent of children were poor, with the poverty rate for the elderly going below that for children for the first time (it has remained below). Poverty for children has been at or above 20 percent since the early 1980's, peaking at 22.3 percent in 1983, the last cyclical peak in overall poverty (the current rate of 21.9 percent is not different from the 1983 rate).

Related children (that is, children living with someone related by blood, marriage or adoption) under six are particularly vulnerable to poverty. As you can see in Chart 8, while all related children had a poverty rate of 21.1 percent, 25.0 percent of related children under six were poor in 1992. If those children live in a family with a female householder, about two-thirds of children under six (65.9 percent) were poor last year. And further, if related children under six lived in a family with a black female householder, nearly three-quarters (73.1 percent) were poor. Families with children are also more likely to be poor than those without children -- 17.7 percent of families with children are poor while only 5.2 percent of families without children are poor. Four-fifths (78.8 percent) of families in poverty in 1992 had children.

The Census Bureau also produces a series of experimental estimates of income, in an attempt to gauge the effect of noncash benefits and of taxes on income levels and on poverty. Neither noncash benefits nor taxes are considered in the official measures. Seventeen experimental definitions of income in addition to the official definition are presented. Chart 9 focuses on three key definitions for the 1979-1992 period:

1. The official definition, cash income;
2. Definition 4, which removes government cash transfers and adds in our estimate of realized capital gains and the value of employer-provided health insurance (this can be thought of as close to private market income); and
3. Definition 14, which takes out taxes and adds in all government transfers such as Social Security and Food Stamps.

The trends in all these series are very similar with one major exception. One of the effects of using a more comprehensive definition of income, which includes benefits from all major government transfer programs, is to soften the impact of declining real cash incomes during economic slowdowns. During the 1979-1983 period, cash income fell by 5.1 percent while the more comprehensive measure fell by only 3.5 percent. During the current 1989-1992 decline in income, cash income fell by 5.9 percent while the more comprehensive measure of income showed a 3.1 percent decline. Increases during 1983-1989 were comparable.

Valuing noncash income and subtracting taxes also affects the estimated poverty rate. Chart 10 shows four alternate estimates of poverty:

1. The official rate;
2. The rate counting only cash income but using the experimental Consumer Price Index (CPI-U-X1) to index the poverty thresholds, roughly an 8 percent reduction in the thresholds;
3. The rate counting noncash income and subtracting taxes (definition 14), using the official poverty thresholds; and
4. The rate using combined adjustments.

In 1992, the poverty rate would have been 11.7 percent instead of 14.5 percent were noncash benefits and taxes accounted for and the thresholds not changed. If the experimental CPI were used to index the poverty thresholds, the poverty rate would have been 13.1 percent instead of the official rate of 14.5 percent. The combined effects of the experimental CPI and counting noncash benefits minus taxes is a poverty rate of 10.3 percent. Of course, there are other alternatives that could increase the measured poverty rate. Regardless of the alternative chosen, however, the pattern is the same over time.

The long-term trend in the US has been toward increasing income inequality. Chart 11 shows the Gini index (also known as the index of income concentration) for household income. Mathematically, the Gini index can range from zero indicating perfect equality to one indicating perfect inequality. This index indicated no change in inequality between 1991 and 1992, but inequality rarely changes from year-to-year. As shown in the chart, income inequality rose slowly in the 1970's and rapidly during the early 1980's. Since about 1987, though, there has been no statistically significant change. The Gini index is now 8.5 percent above the 1967 level.

Another perspective on income inequality can be gained by standardizing incomes for different family sizes; this was done using the poverty thresholds (which are not defined for house-

holds). In 1992, families in the lowest quintile had an average income-to-poverty ratio of 0.91 (chart 12). Thus, on average, families in this quintile were poor (their ratio was less than 1.0). This has not changed much over time; in 1967 the ratio was 0.97. At the opposite end of the income distribution, the average ratio in the highest income quintile of family income in 1991 was 8.43 (that is, the average family there had over eight times a poverty-level income). This has changed substantially since 1967, when the ratio was but 6.06. This pattern is additional evidence of increasing income inequality over time, as is the increasing share of household income received by the highest income quintile -- 46.9 percent in 1992 but only 43.8 percent in 1967.

There is a lot of short-term movement along the income distribution. We used a second survey, the Survey of Income and Program Participation, to examine the extent to which individuals and families change their economic status from one year to the next. Roughly one-third of all persons change to a different income quintile from one year to the next. The next chart [13] shows data from the SIPP for a period of economic growth, 1987-1988, and a period of economic decline, 1990-1991. As one might expect, there were fewer increases and more decreases in income-to-poverty ratios in periods of decline than in periods of growth. For example, 38 percent of persons experienced declines of 5 percent or more in their family's income-to-poverty ratios between 1990 and 1991 versus only 32 percent in 1987-1988. On the other hand, only 36 percent experienced increases of 5 percent or more in 1990-1991 versus 44 percent in 1987-1988.

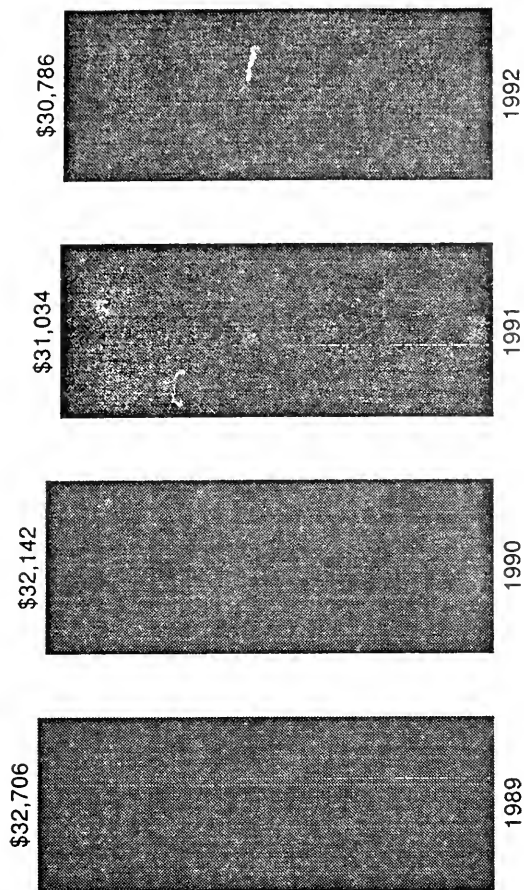
In summary, I'd like to make three points:

First, there was no change in median household income for the U.S. between 1991 and 1992, except in the Northeast where income fell 3.7 percent. Median household income in 1992 was \$30,786, \$1,920 below the 1989 figure.

Second, there was no change in the poverty rate, which in 1992 stood at 14.5 percent, except in the South, where the poverty rate increased from 16.0 to 16.9 percent. The South remained the region with the highest poverty rate.

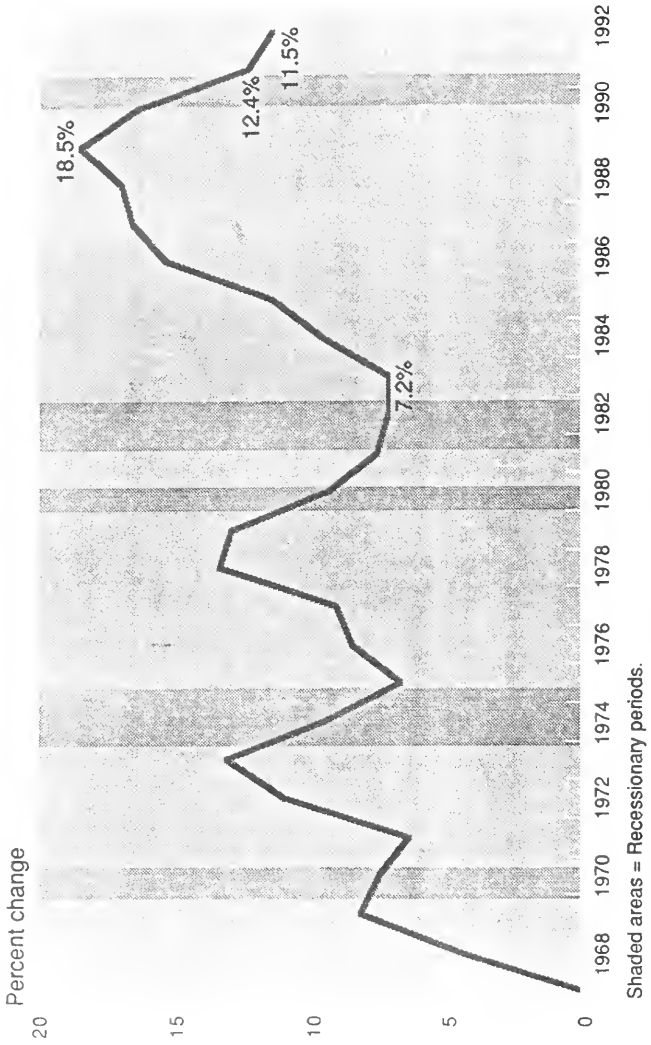
Third, the number of poor did increase 1.2 million between 1991 and 1992 and is now 36.9 million, 5.4 million more than in 1989, the last business cycle peak. The last year in which more people were poor was 1962, when the total population was about three-fourths as large as now (73 percent).

Median Household Income: 1989-1992 (In 1992 dollars)



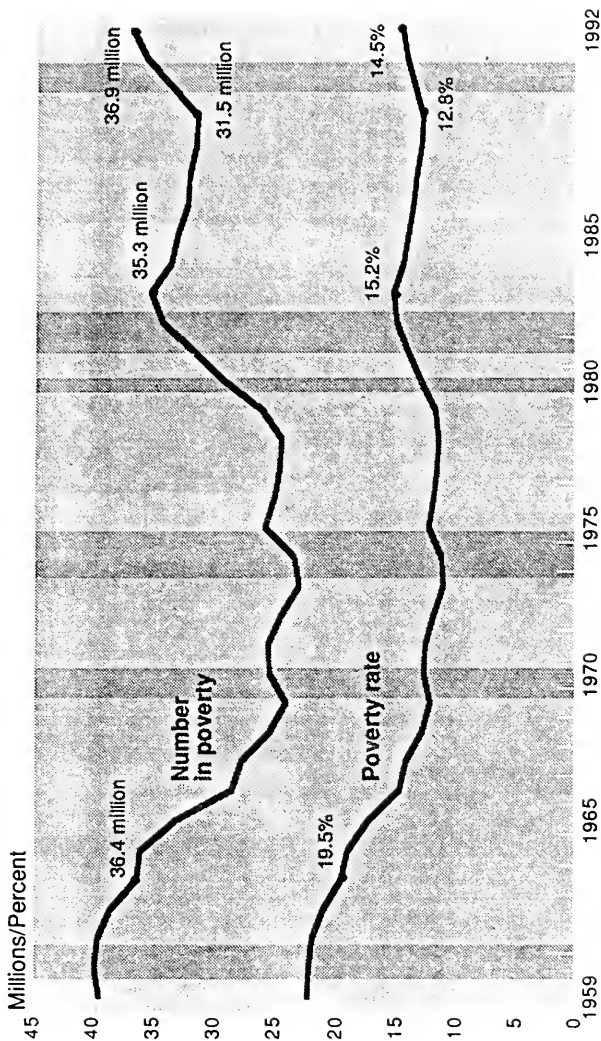
Percent change: 1991-92 = no change
1989-92 = 5.9 percent decline

**Index of Percent Change in Median Household
Income: 1967-1992**
(Based on 1992 dollars)
Percent change



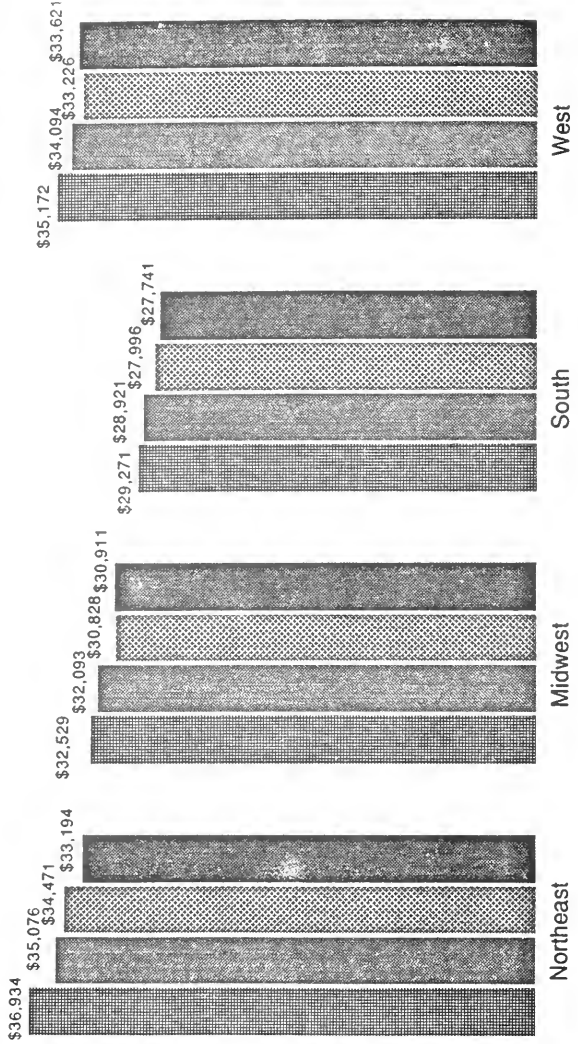
Shaded areas = Recessionary periods.

Poverty: 1959-1992



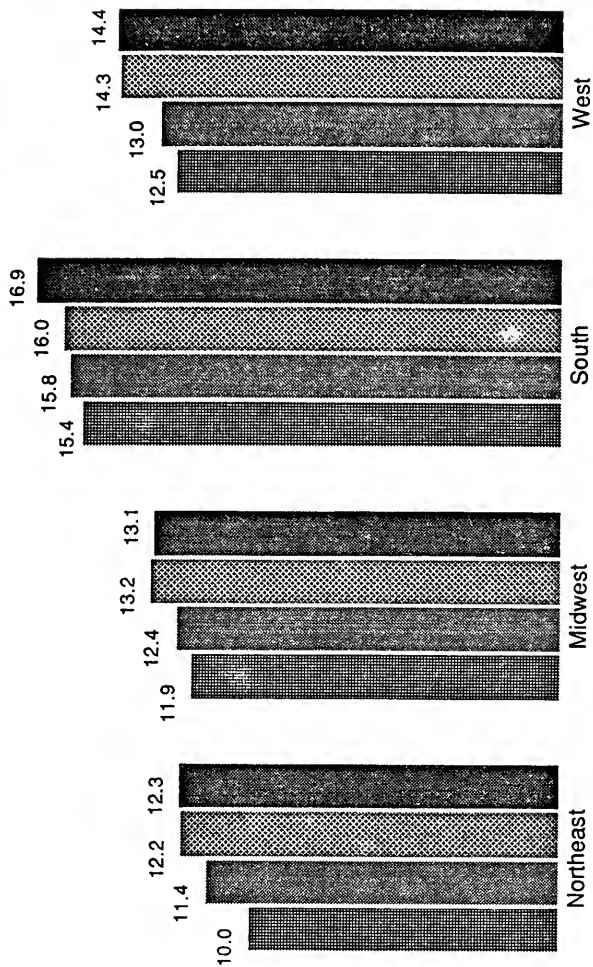
Shaded areas = Recessionary periods.

**Median Household Income by Region:
1989-1992**
(In 1992 dollars)

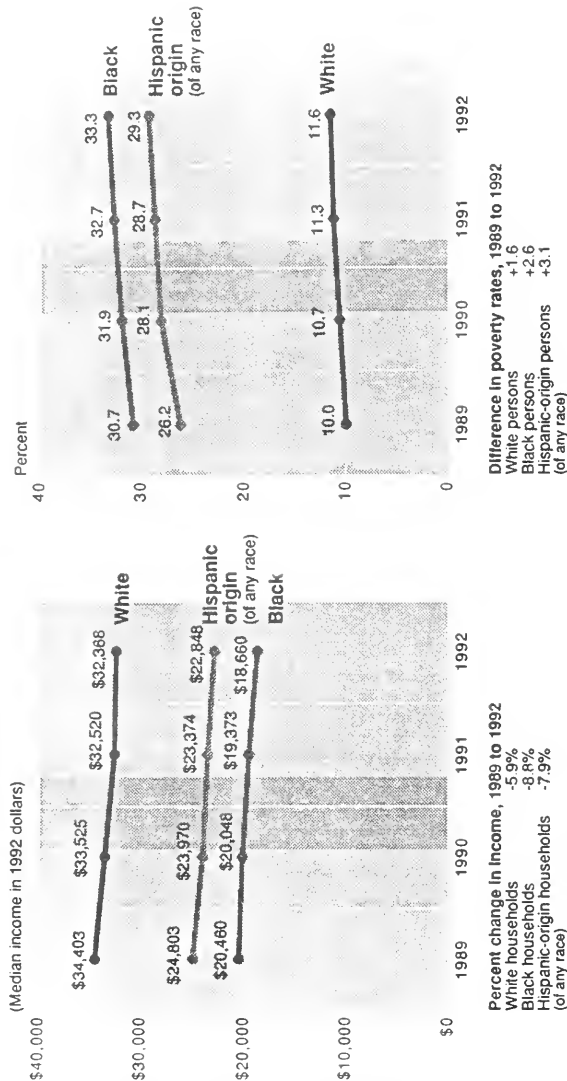


Poverty Rates by Region: 1989-1992

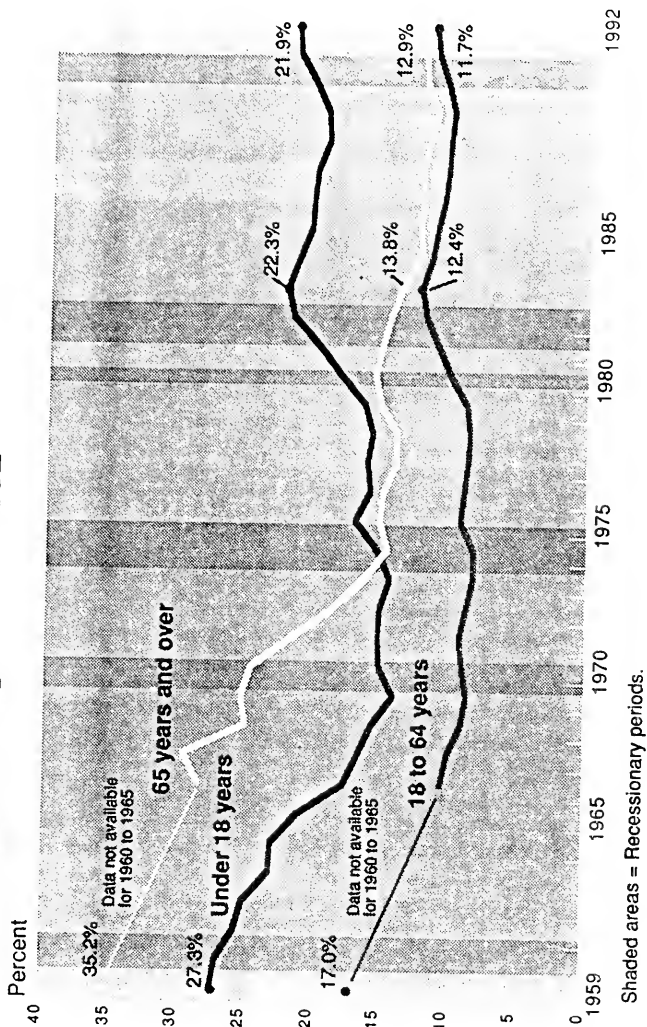
Percent poor



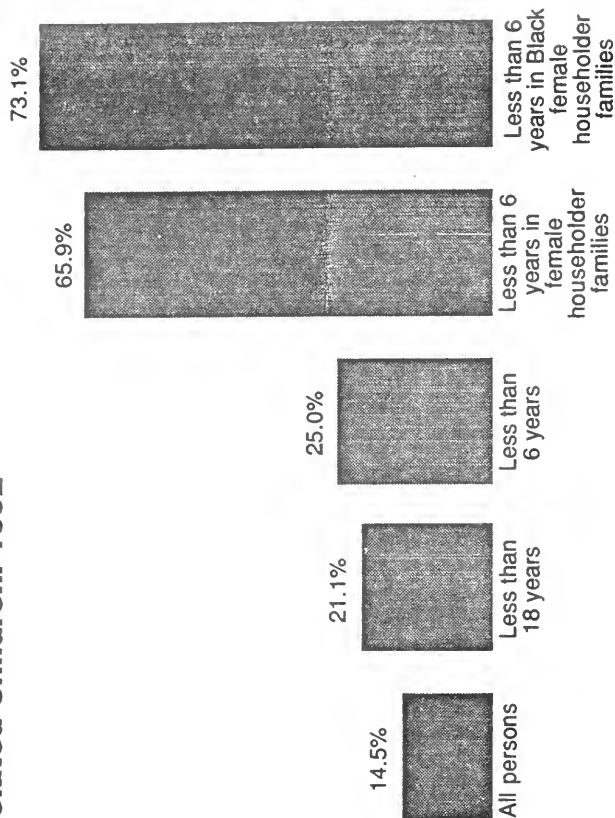
Median Household Income and Poverty Rates of Persons, by Race and Hispanic Origin: 1989-1992



Poverty Rates by Age: 1959-1992

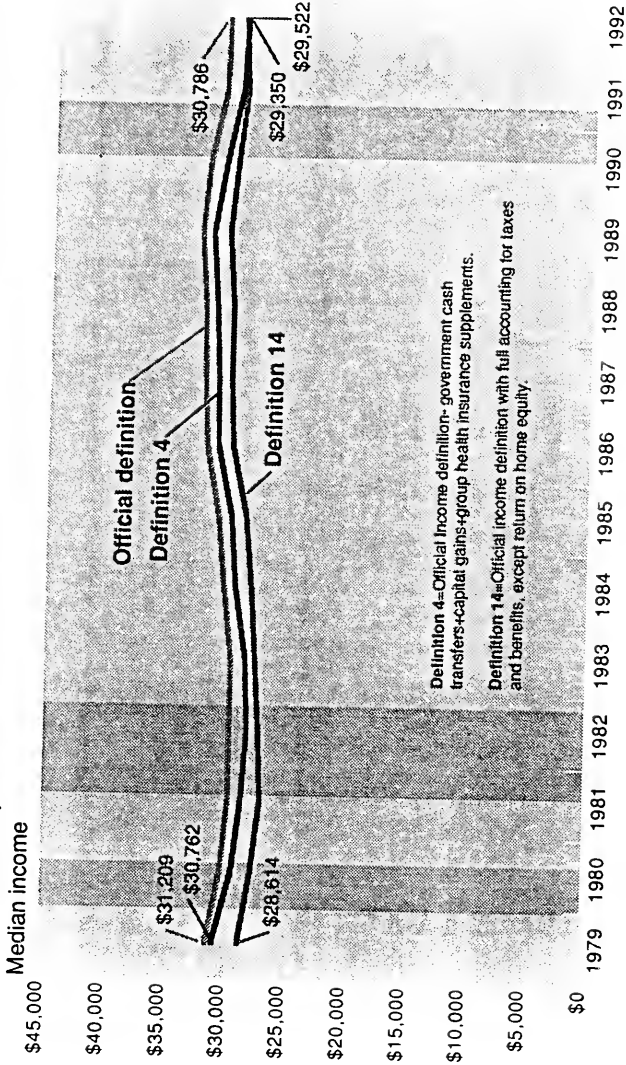


Poverty Rates for All Persons and Related Children: 1992



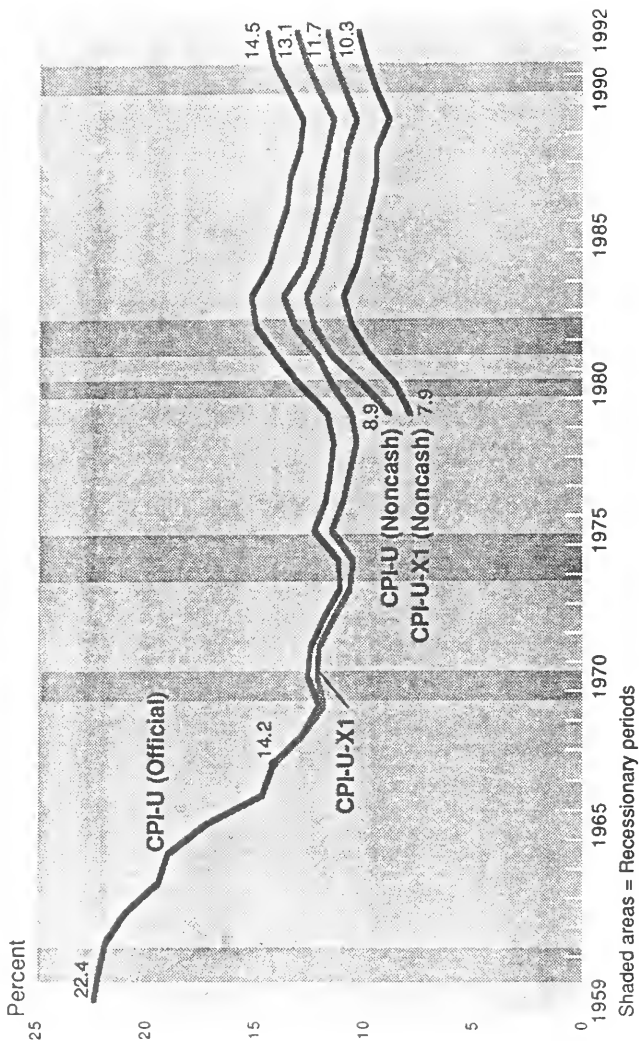
Median Household Income, by Income Definition: 1979-1992

(In 1992 dollars)

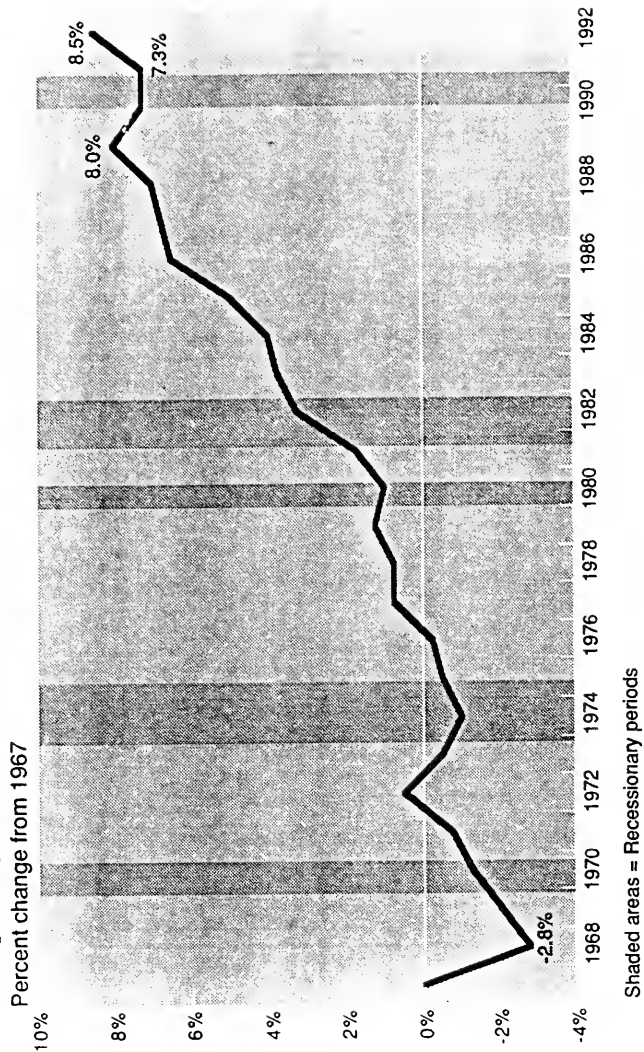


Shaded areas = Recessionary periods.

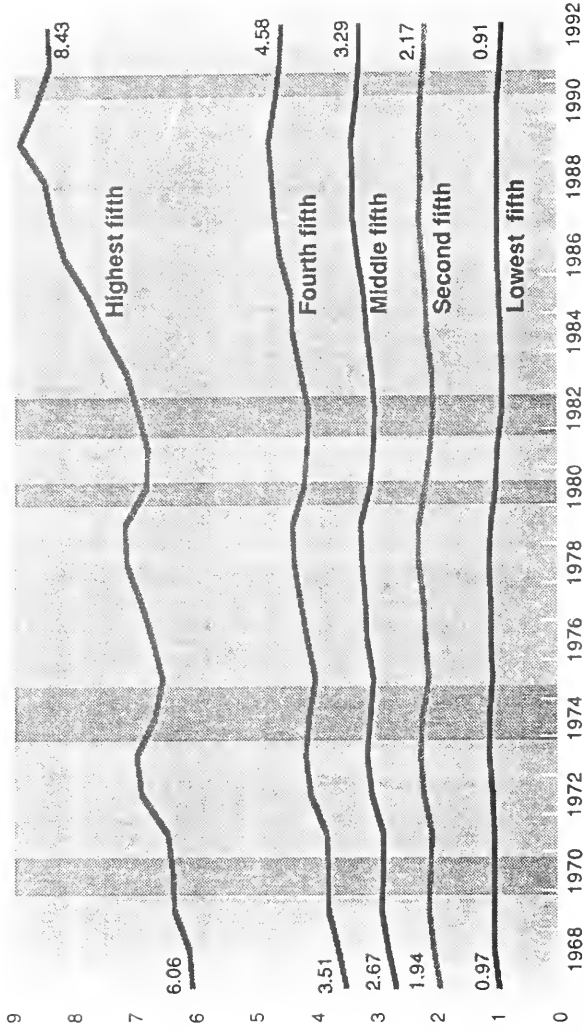
Poverty Rates by Definition of Income and Type of Deflator: 1959-1992



Index of Percent Change in Household Income Inequality: 1967-1992





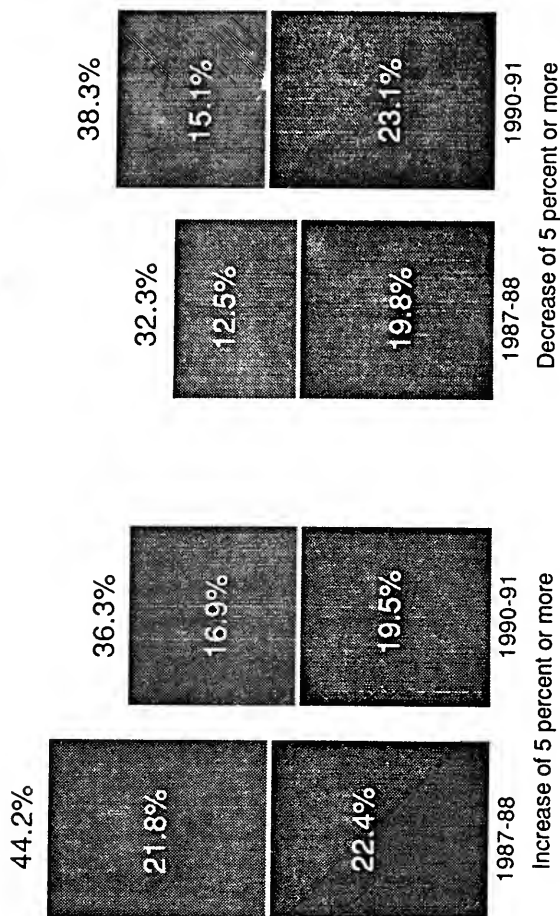
**Average Income-to-Poverty Ratios for Families,
by Income Quintile: 1967-1992**



Shaded areas = Recessionary periods.

Changes in Income-to-Poverty Ratios: 1987-1988 and 1990-1991

 Changes of 20 percent or more
 Changes of 5-19 percent



Difference between changes of less than 5 percent were not significant: 1987-88 = 23.5%
 1990-91 = 25.4%

Chairman FORD. What are the trends in earnings for white and black women with low skills and educational levels, Mr. Weinberg?

Mr. WEINBERG. You see an increasing earnings inequality as well as overall income inequality. The earnings of the lowest skill level, the lowest education level have remained more or less constant, while those at the upper end have grown rapidly. So you have an increasing earnings inequality paralleling that of the increasing income inequality.

Chairman FORD. How do earnings compare to male workers with similar characteristics?

Mr. WEINBERG. I have a chart drawn from a paper by Frank Levy and Richard Murnane.

Chairman FORD. Is that part of your—

Mr. WEINBERG. It is additional information. When you compare the earnings for those with a college education with those with a high school education for men in 1971, those with a college education earned 22 percent more than those with a high school education. In 1991 they earned 44 percent more, so there has been an increase in the dispersion, for men age 25 to 34.

For women 25 to 34, in 1971 those with a college education earned 41 percent more than those with a high school education. In 1991 it was 52 percent more. So there has been a slight increase for women in that age group as well.

Chairman FORD. Families with children under the age of 6 have a poverty rate of 25 percent. That is an astounding number. I guess it raises questions about the earnings potential of our youngest families.

Let me raise a couple of issues with you. Are our youngest families having particularly difficult times?

Mr. WEINBERG. I think that is correct, Mr. Chairman. The youngest families have not seen the earnings growth that the older families have typically because the younger families are on the bottom of the income distribution.

Chairman FORD. They are on the bottom of the income distribution; why so?

Mr. WEINBERG. They don't have the experience of other families, of other earners.

Chairman FORD. From an educational—

Mr. WEINBERG. Education—as you—this is a table of the earnings of year-round full-time workers. We have an index of low annual earnings which is roughly the earnings you need to be out of poverty. For males 18 to 24 in 1964, 35 percent had low annual earnings. 1990, this was 40 percent. So there has been an increase in the proportion of those younger ages with lower earnings. Females, the ratio stayed about the same, 47 and 48 percent.

Chairman FORD. How would it compare with their parents, accounting for the number of hours of work?

Mr. WEINBERG. I am not fully familiar with the actual number of hours worked, but if we look at, say their parents are in ages 35 to 54, over that same period: in 1964, 12.5 percent had lower annual earnings. By 1990 it was only 8.9 percent. So the proportion has gone down for people in their prime earning years, but it has gone up for those in the younger ages. That is for males.

Chairman FORD. Are you suggesting that their incomes will increase as they get older, and in the degree that their parents' did?

Mr. WEINBERG. Yes. As they get more experience in a particular job their incomes will go up. There is speculation that their incomes will not be as high as their parents were, and I don't know how that will play out over time for the current workers.

Chairman FORD. Is that true for college graduates as well?

Mr. WEINBERG. I am not sure. I don't have the statistics.

Chairman FORD. Did I miss something—

Mr. WEINBERG. Let me check one figure here. There is a figure for civilian workers 16 years and over. In 1959, 12.1 percent had low annual earnings. In 1992, it was 18 percent. So we do see an increase in the proportion with low annual earnings. That compares with, say, those without a high school education, those not a high school graduate. We saw an increase from 22 percent with low annual earnings up to 39.5 percent. There has been a much larger increase for those without a high school education than those with a college education. There has been an increase across the board, though, in almost every group.

Let me make a correction. The first figure I gave you was for all civilian workers. It went from 12.1 to 18.0 percent. For college graduates it went from 4.3 to 7.2 percent. So they did see a substantial increase as well.

Chairman FORD. What about African-Americans? When you look at the poverty rate, you are talking about a rate of 33 percent and for Hispanic Americans you are talking about a rate of 29 percent. Are there factors that we should be concerned with that would not necessarily be true with other segments of society in America? Why is it so high among African-Americans and Hispanics relative to the overall rate of 14.5 percent, which also is much too high?

Mr. WEINBERG. Historically, the rate has been much higher in large part due to the demographic structure of the population. For example, the poverty rate for all female-headed households is around 40 percent. For blacks it is about that level. The proportion of black families that are female-headed households is much higher than for white families, for example, so you will get a higher poverty rate simply by the composition effect.

There are arguments that there has been discrimination in the labor market against minorities and that may contribute in some way. I don't have any measure of that.

Chairman FORD. The same would be true for Hispanics?

Mr. WEINBERG. Yes. The proportion of Hispanic families that are female-headed households are not as high as for blacks, but their poverty rates for each of those family groups are as high as for blacks, sometimes higher. So the overall rate for Hispanics is not as high as for blacks because the composition is a little different.

Chairman FORD. Walk back through the earlier statement about female-headed households. You talked about a poverty rate of 50 percent for African-American female head of households?

Mr. WEINBERG. Yes. Females—

Chairman FORD. What publication is that?

Mr. WEINBERG. This is our publication, "Poverty in the United States 1992." Table 2 has a—persons in families, as you know, the poverty rate over all was 14.5 percent. For persons in families,

though, the poverty rate was 13.0 percent. For those in families with a female householder or no spouse present in 1992 the poverty rate was 38.5 percent.

For persons in black families, families with black, female householders, the poverty rate was 53.7 percent. For those Hispanic female households it was 51.2 percent, the same as for blacks, basically about half.

Table 2 is on pages 2 and 3. We looked back over time—in 1959 persons in families with a female householder, 49.4 percent were poor. For blacks in 1959 it was 70.6 percent. Hispanics in 1973, we don't have the data back to 1959, was 57.4 percent; so there has been some improvement over time, but it is still rather high.

Chairman FORD. One other question and then I will recognize Mr. Grandy. The income trends data are not adjusted to take into account hours of work. Do the long-term income trends look better or worse if hours of work are taken into account?

Mr. WEINBERG. I am afraid I don't know. I would have to speculate. I don't know the statistics on that. I would be glad to supply that for the record, though.

Chairman FORD. Would you do that for the record and while you are doing it, also try to respond to answer, are we working more but earning less?

One final thing. Which types of families—young versus old, low-skilled versus high-skilled, African-American versus Hispanic versus white—are most affected if hours of work are taken into account? Please submit that to the committee.

[The information follows:]



UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
 Washington, D.C. 20233
 OFFICE OF THE DIRECTOR

November 4, 1993

The Honorable Harold E. Ford
 Chairman, Subcommittee on Human Resources
 Committee on Ways and Means
 House of Representatives
 Washington, DC 20515

Dear Mr. Chairman:

Following my testimony before the Subcommittee on Human Resources on October 26, you asked me some questions about the relationship between changes in work effort and the income and poverty trends that I discussed in my presentation. At the time I did not have any specific information on that subject and I offered to supply some material to the Committee at a later time. My staff put together some information that I hope meets your needs.

The enclosed table (B-16), from Money Income of Households, Families, and Persons in the United States: 1992 (Series P60-184), shows a time series of median earnings of persons by work experience and gender. The table shows that, among women workers, there was a 20.7 percent increase in real median earnings between 1979 and 1992 (from \$11,332 to \$13,677). There was also an increase in the percentage of women workers who worked year-round full-time over this time period (from 43.4 to 53.5 percent). It is clear that this increase in work effort had a large effect on the overall earnings increase among women. For women who worked year-round full-time, median earnings grew by 11.4 percent between 1979 and 1992, a little more than one-half as large as the overall women's earnings increase over this period.

Among men there was a much weaker relationship between differences in work effort and change in earnings over time. Overall, men's earnings declined by 9.7 percent in real terms between 1979 and 1992 (from \$24,549 to \$22,173). Over this time, the percentage of male workers working year-round full-time changed only slightly, increasing from 65.6 percent in 1979 to 66.8 percent in 1992.

Among Black workers 18 years old and over, there was an increase in the percentage of workers working year-round full-time between 1979 and 1992, from 54.5 to 59.5 percent. This change had an effect on the earnings trend of Black workers. Overall, the mean earnings of Black workers rose by 4.2 percent in real terms over this period, while there was no change in the mean earnings of year-round full-time workers.

The Honorable Harold E. Ford

2

Changes in work effort did not appear to have an effect on the earnings of Hispanic workers over this period, as the percentage of workers working year-round full-time did not change significantly and the changes in earnings were similar for all workers and those working year-round full-time.

Workers with low levels of educational attainment experienced large declines in earnings, regardless of work experience. For example, workers with less than a high school education experienced a decline in earnings of 21.2 percent in real terms between 1979 and 1992. Changes in work effort did not appear to play a role in this decline. Workers who attended high school, but did not graduate, experienced a similar decline (20.0 percent).

Young workers (those between the ages of 18 and 24) also experienced a large decline in real earnings over this period (20.2 percent). There was also a decline in the percentage of these workers working year-round full-time (from 35.3 to 32.8 percent).

Also enclosed is Table E from Poverty in the United States: 1992, (Series P60-185). This table shows that the relationship between work experience and poverty has changed little over time. The percentage of poor persons who worked (40.3 percent in 1992) and the percentage working year-round full-time (9.2 percent in 1992) has changed only slightly from 1978.

For additional information on the relationship between work and family income, I recommend you consult "Families on a Treadmill: Work and Income in the 1980s," a study prepared by the Joint Economic Committee in January 1992. One of the findings of the study was that for families in the lowest 60 percent of the income distribution, the number of hours that families worked rose faster than their earnings. The report refers to families as "running faster to stay in place."

If you need further information, please have a member of your staff call me on 301-763-8550.

Sincerely,



DANIEL H. WEINBERG
Chief, Housing and Household
Economic Statistics Division

Enclosures

B-34

Table B-16. Work Experience—Median Money Earnings of Persons by Sex: 1967 to 1992

(Numbers in thousands. Persons 15 years old and over with earnings beginning with March 1980, and persons 14 years old and over as of March of the following year for previous years. Prior to 1989 earnings are for civilian workers only. Earnings in 1992 CPI-U-X1 adjusted dollars. For meaning of symbols, see text.)

Year	Male					Female				
	Total workers	Worked full time		Worked part time		Total workers	Worked full time		Worked part time	
		Total	50 to 52 weeks	Total	50 to 52 weeks		Total	50 to 52 weeks	Total	50 to 52 weeks
NUMBER										
1992	72,318	61,772	48,308	10,546	3,891	62,050	43,083	33,180	18,967	8,446
1991	72,040	61,672	47,888	10,367	3,857	61,796	42,788	32,438	19,008	8,084
1990	72,348	62,362	49,171	9,986	3,701	61,732	42,940	31,682	18,792	7,835
1989	72,045	62,157	49,678	9,888	3,856	61,388	42,693	31,340	18,646	7,610
1988	70,467	60,558	48,285	9,909	3,540	60,658	41,573	31,237	19,085	7,876
1987 ¹	69,545	59,784	47,013	9,761	3,306	59,359	40,490	29,912	18,869	7,680
1986	68,728	59,187	45,912	9,541	3,244	57,686	39,214	28,420	18,472	7,296
1985	67,809	58,274	44,943	9,535	3,322	56,296	38,172	27,383	18,124	6,884
1984 ²	66,454	56,954	43,808	9,500	3,163	55,226	37,269	26,466	17,957	6,655
1983	65,138	55,290	41,528	9,848	3,315	53,108	35,361	25,168	17,747	7,042
1982	64,730	54,944	40,105	9,766	3,173	51,820	34,486	23,702	17,334	6,593
1981	65,233	55,862	41,773	9,371	2,988	51,940	34,674	23,329	17,267	8,074
1980	64,730	56,055	41,861	8,675	2,889	51,448	34,727	22,859	16,721	6,012
1979 ³	64,648	55,133	42,437	8,514	2,775	50,897	34,539	22,062	16,356	5,356
1978	62,903	54,565	41,036	8,338	2,637	48,398	32,603	20,914	15,795	5,056
1977	61,704	53,219	39,263	8,485	2,655	46,194	30,734	19,238	15,461	4,881
1976	60,450	52,189	38,184	8,262	2,633	44,565	29,361	18,073	15,184	4,753
1975	59,268	51,169	37,267	8,099	2,714	42,926	28,456	17,452	14,468	4,914
1974 ⁴	59,866	51,419	37,916	8,447	2,706	42,854	28,232	16,945	14,621	4,439
1973	59,438	51,076	36,581	8,362	2,708	41,583	28,131	17,195	13,453	4,102
1972	57,774	49,856	38,184	7,817	2,546	39,470	27,178	16,675	12,291	3,776
1971	56,886	48,789	38,819	8,097	2,647	38,485	26,199	16,002	12,285	3,818
1970	55,821	48,045	36,132	7,776	2,604	38,273	25,926	15,476	12,347	3,463
1969	55,273	47,766	37,008	7,507	2,466	37,737	26,105	15,374	11,632	3,478
1968	54,026	47,325	37,068	6,700	2,435	35,685	25,379	15,013	10,318	3,169
1967 ⁵	53,222	46,645	36,645	6,577	2,353	34,391	24,485	14,846	9,907	3,143
MEDIAN EARNINGS										
1992	\$22,173	\$26,043	\$30,358	\$4,005	\$7,103	\$13,877	\$18,870	\$21,440	\$4,706	\$7,747
1991	22,515	26,295	30,307	4,099	7,137	13,272	18,441	21,172	4,611	7,561
1990	23,103	26,666	29,711	4,230	7,372	13,150	18,138	21,278	4,554	7,700
1989	24,166	27,701	30,924	3,830	7,419	13,279	18,331	21,236	4,413	7,621
1988	24,445	27,743	31,613	3,746	7,288	13,160	18,314	20,880	4,297	7,704
1987 ¹	24,476	27,377	32,044	3,500	7,271	13,118	18,167	20,886	4,312	7,762
1986	24,043	27,611	32,330	3,573	7,220	12,822	17,461	20,779	4,030	7,900
1985	23,182	27,009	31,548	3,566	7,023	12,183	16,780	20,372	3,789	7,239
1984 ²	22,991	27,023	31,352	3,397	7,119	11,714	16,447	19,956	3,701	7,554
1983	22,640	26,256	30,822	3,360	6,797	11,593	16,489	19,601	3,882	7,407
1982	22,561	25,866	30,932	3,594	7,115	11,260	16,133	19,099	3,924	7,278
1981	23,452	26,607	31,548	3,491	6,904	11,246	15,930	18,687	3,806	7,602
1980	23,885	27,191	31,729	3,498	7,131	11,292	15,711	19,088	3,805	7,315
1979 ³	24,549	28,236	32,258	3,744	7,083	11,332	15,424	19,246	3,672	7,339
1978	25,219	28,243	32,695	3,398	6,845	10,910	15,514	19,434	3,398	7,115
1977	24,501	27,672	32,469	3,117	6,245	10,376	15,156	19,131	3,190	6,991
1976	24,330	27,503	31,780	3,099	5,959	10,147	14,942	19,129	3,203	7,017
1975 ⁴	24,151	27,256	31,850	3,006	6,119	9,868	14,612	18,733	3,180	6,988
1974 ⁴	24,657	27,846	32,069	3,087	6,380	9,632	14,603	18,842	2,914	6,820
1973	25,807	29,091	33,250	3,154	5,927	9,714	14,425	18,831	2,671	6,102
1972	25,251	28,341	32,237	3,109	5,533	10,055	14,520	18,653	2,749	6,244
1971	24,050	26,917	30,596	2,900	5,521	9,720	14,186	18,206	2,663	5,713
1970	24,296	26,898	30,458	2,928	5,588	9,274	13,928	18,083	2,490	5,908
1969	24,567	27,091	29,296	2,931	5,395	9,100	13,492	17,723	2,503	5,527
1968	23,974	26,199	28,521	3,182	4,804	9,348	13,066	16,587	2,996	5,686
1967 ⁵	23,267	25,358	27,759	3,204	4,847	9,087	12,739	16,040	2,887	5,426

¹Implementation of a new March CPS processing system.²Implementation of Hispanic population weighting controls.³Implementation of 1980 census population controls. Questionnaire expanded to show 27 possible values from 51 possible sources of income.⁴First year medians are derived using both pareto and linear interpolation. Prior to this year all medians were derived using linear interpolation.⁵These estimates were derived using pareto interpolation and may differ from published data which were derived using linear interpolation.⁶Implementation of a new March CPS processing system. Questionnaire expanded to ask eleven income questions.⁷Implementation of a new March CPS processing system.

NOTE: The changes listed above are discussed in more detail in a paper, "Effects of the March Current Population Survey's New Processing System on Estimates of Income and Poverty," by Edward J. Welniak, Jr., published in the American Statistical Association Meeting Proceedings, 1990.

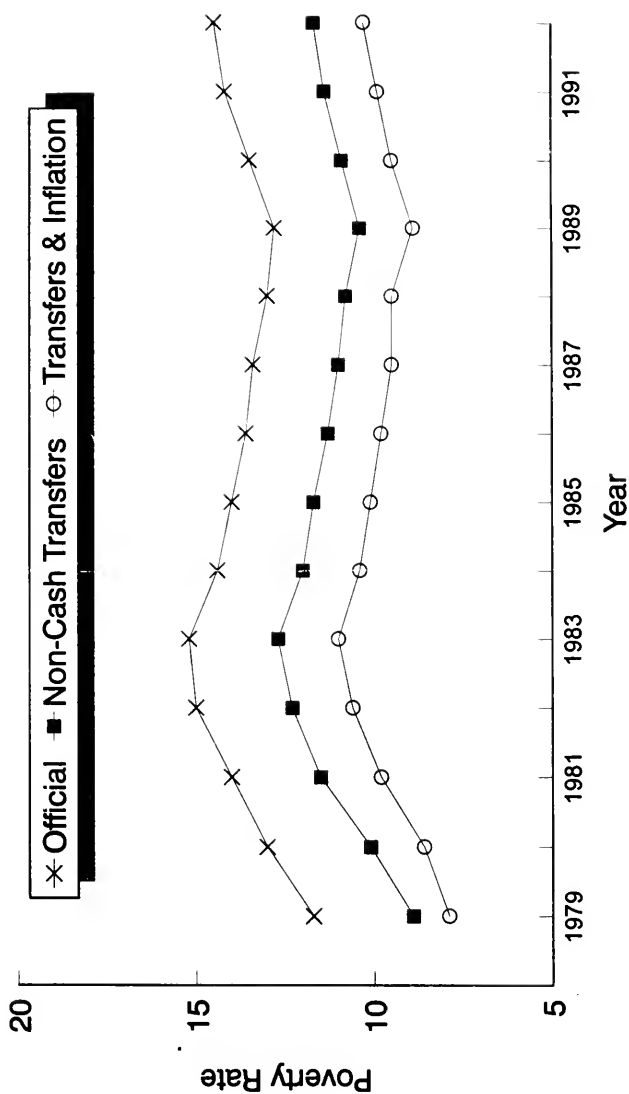
Table E. Workers as a Proportion of All Poor Persons: 1978 to 1992

[Numbers in thousands]

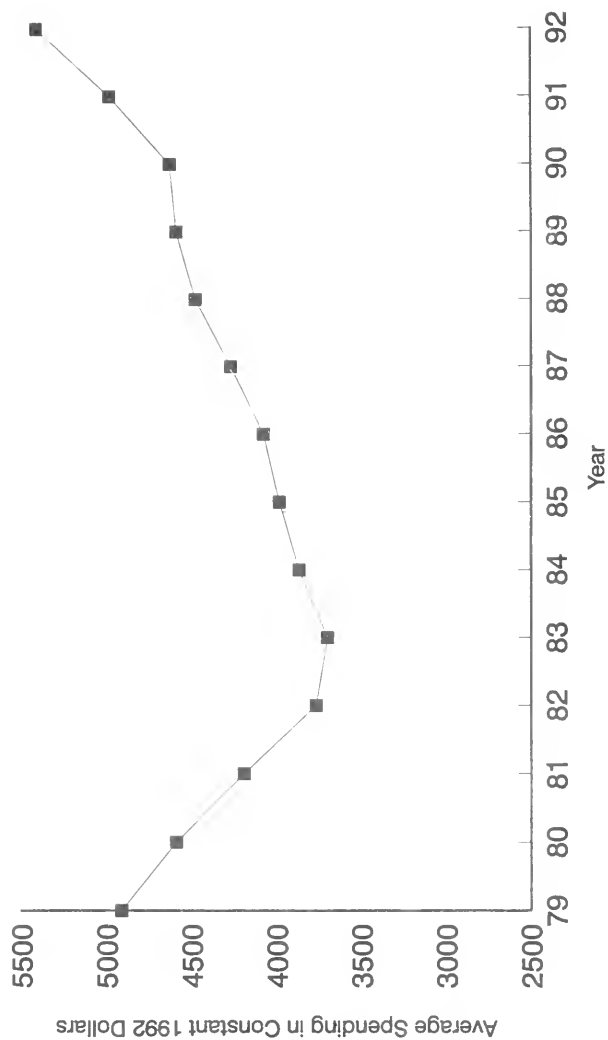
Year	Poor persons 16 years and over				
	Total	Worked		Worked year-round, full-time	
		Number	Percent	Number	Percent
1992	23,424	9,438	40.3	2,152	9.2
1991	22,530	9,208	40.9	2,103	9.3
1990	21,242	8,716	41.0	2,076	9.8
1989	19,952	8,376	42.0	1,908	9.6
1988	20,323	8,363	41.2	1,929	9.5
1987	20,546	8,258	40.2	1,821	8.9
1986	20,688	8,743	42.3	2,007	9.7
1985	21,243	9,008	42.4	1,972	9.3
1984	21,541	8,999	41.8	2,076	9.6
1983	22,741	9,329	41.0	2,064	9.1
1982	22,100	9,013	40.8	1,999	9.0
1981	20,571	8,524	41.4	1,881	9.1
1980	18,892	7,674	40.6	1,644	8.7
1979	16,803	6,601	39.3	1,394	8.3
1978*	16,914	6,599	39.0	1,309	7.7

*14 years and over.

Poverty Rate by Definition of Income, 1979-1992

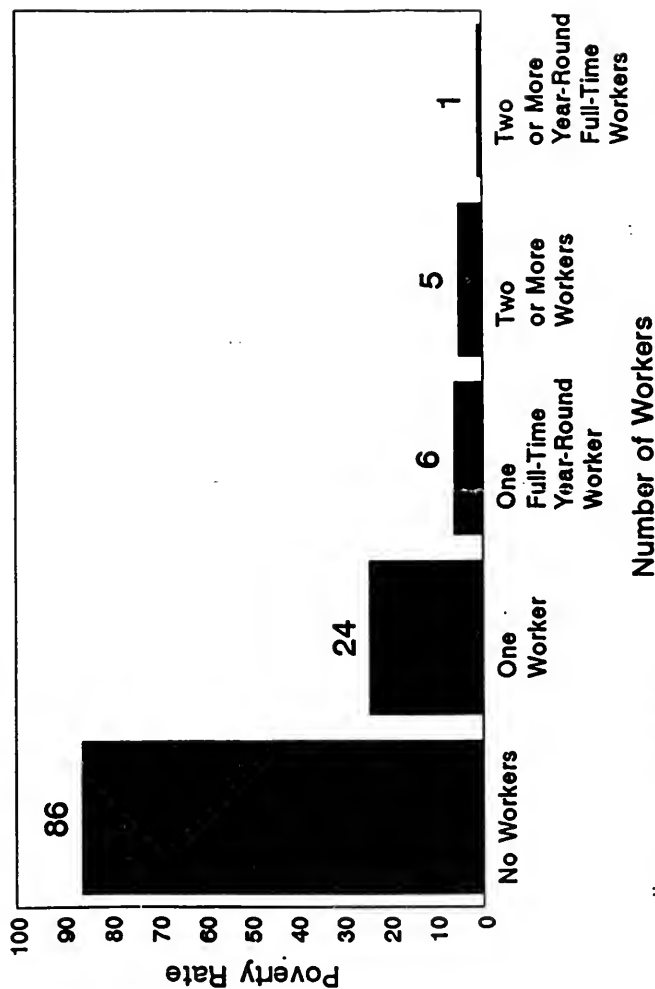


Changes in Federal Means-Tested Spending per Person in Pre-Transfer Poverty,
1979-1992



Sources: Congressional Research Service, 1993; U.S. Bureau of the Census, 1993.

Poverty Rates for Families with Children by Number of Workers, 1990



Source: U.S. Bureau of the Census.

Mr. GRANDY. Thank you, Mr. Chairman. Mr. Weinberg, let me ask you, in the preparation of your poverty charts, do most of these charts include noncash transfers in Federal poverty programs and/or transfers plus inflation factors, and does your methodology factor in all that?

Mr. WEINBERG. The income statistics are adjusted for inflation using the experimental Consumer Price Index proposed by the Bureau of Labor Statistics. In the official income and poverty statistics we do not take account of the noncash transfers. I include a section, chart 10, of the testimony that attempts to adjust the poverty statistics for both the experimental price index and noncash transfers and taxes. Under the official definition of income and the official poverty thresholds, in 1992, the poverty rate was 14.5 percent.

If we were to count noncash government transfers and subtract the effect of taxes, the poverty rate would have been 11.7 percent using the official poverty thresholds. If we were to adjust the poverty thresholds as we did for income using the experimental price index, but then using the official definition of income, the poverty rate would have been 13.1 instead of 14.5 percent. If we use both adjustments, we have a poverty rate of 10.3 instead of 14.5 percent.

Two points I would like to make. The pattern of change in the poverty statistics is basically the same regardless of which of these measures you use. That is, it tends to go up in recessions and down in recoveries. Arguments are made about why the poverty thresholds are too low as well as too high. I personally would prefer to focus on changes in the index in the poverty rate and comparisons across demographic groups rather than specifically in the level, although of course the level is important as well.

Mr. GRANDY. I don't mean to use my time to quibble over numbers or percentages, but I would like to submit for the record and to members of the committee three charts, Mr. Chairman. The first one shows the poverty index by definition of income and a connected inflation index from 1979 to 1992. I will pass this out to you, doctor.

Mr. GRANDY. Essentially, the trend line of poverty is the same shape, albeit at a lower level when you factor in the cash transfers and inflation from 14.5 percent, which is the official determination down to what looks to be around 10 percent or just below 10 percent if you factor in cash transfers and inflation. I guess the point that I think is worth establishing is that I don't think you can say the problem is directly related to Federal neglect or lack of largess because the second chart I would like to pass out indicates that from 1979 to 1992 we have actually spent more money per person in pretransfer poverty programs to the tune of about 10 percent more, from \$4,900 per person in 1979 up to \$5,400 in 1992.

Last year this committee began, and I am sure will continue to pursue, some of the poverty drivers. And clearly one of the things that was affecting families, and I am not breaking them out the way the Chairman did, black, Hispanic or white—but my third chart, I think, tells the tale that the poverty rate is most oppressive among families with no workers, and secondarily families with one worker. But the drop off is from 86 percent for families with

no workers down to 24 percent if the family has one worker. This is Bureau of Census data from last year.

One full-time year-round worker reduces that poverty level down to 6 percent, two or more workers reduce it to a 1 percent level. It seems to me that whatever we conclude from the poverty data that you are providing, it is that we have a tremendous problem with nonwork and with pregnancy, particularly teenage pregnancy, because obviously a lot of these nonworkers are young women who are getting pregnant.

I assume that nothing that you have presented here would contradict that. Based on my conversations with Dr. Elwood and others at HHS, that seems to be the focus the administration wants to target on.

Mr. WEINBERG. That is correct. You raise points about the appropriate way to measure poverty. I would like to remind you that at the Congress' direction we are funding, with the Bureau of Labor Statistics and the Department of Health and Human Services, a panel at the National Academy of Sciences on the appropriate way to measure poverty. They are preparing the final report at this time.

They expect to be releasing it early fall next year and that might be an appropriate topic for you to take up next year. They are targeting right now for September or October release of the report.

Mr. GRANDY. I don't know what the timetable is for welfare reform or shall I say welfare-to-work reform. I would hope that we would be at least involved in the mechanics of that prior to next fall. It seems to me that this is an issue that the President prioritized during his campaign and we on the Republican side intend to unveil our comprehensive package on that.

The new measurements notwithstanding, we can proceed from this database, can't we? We have to target nonwork, illegitimate birth and this is not reflected in any of your numbers, but I would like you to comment, finally, can you infer from any of your charts here or from any of the data that you have not presented the impact on poverty of immigration rates over the last 5 or 10 years?

Mr. WEINBERG. I can't quantify that, but I can give you a qualitative answer. Immigrants in the last 5 to 10 years have tended to be low-skill individuals as opposed to previously. They tend to have lower education. They might speak a different language, which creates a barrier to productive employment though not a total barrier. Therefore they would tend to add more people at the lower end of the income distribution than at other ends and would exacerbate the poverty situation.

Mr. GRANDY. Can you give us any kind of data that would indicate whether or not a lot of these new arrivees are pulling jobs away from Americans who would otherwise be competing on a more level playing field for some of those low skill, low income jobs?

Mr. WEINBERG. Our statistics don't allow us to answer that. I am sorry.

Mr. GRANDY. Thank you. That is all I have.

Chairman FORD. Mr. Santorum.

Mr. SANTORUM. No questions.

Chairman FORD. Let me follow up on a few of the points by Mr. Grandy. There are 37 million Americans who live below these poverty thresholds, right?

Mr. WEINBERG. Yes.

Chairman FORD. In the welfare system—Aid To Families With Dependent Children—the total population is 12 million. So that leaves 25 million additional Americans who live below the poverty threshold?

Mr. WEINBERG. Yes, but payments under AFDC are counted in the income that we use to compare to the poverty threshold. In some cases the AFDC payments might contribute to taking some of these people out of poverty in a few States. Most of the recipients are probably still in poverty.

Chairman FORD. How does that compare to the elderly on SSI and Medicaid?

Mr. WEINBERG. As you can see by the earlier chart, poverty rates by age—

Chairman FORD. Public assistance to the elderly is taken into account?

Mr. WEINBERG. Yes. Supplemental security income and Social Security is taken into account.

One of the major achievements, I think, of the Federal Government is to reduce the poverty rate of the elderly substantially. It used to be 35.2 percent in 1959; it is now 12.9 percent, and it is due mainly to Social Security and to some extent supplemental security income.

Chairman FORD. If we look at these charts, we can see that during the Reagan-Bush era, 1983 to 1992, the poverty rate for children varied between 22.3 percent to 21.9 percent.

Mr. WEINBERG. There has been no change since 1983 in the poverty rate of children; that is correct.

Chairman FORD. Can you put that severe poverty rate problem over an extended period into perspective?

Mr. WEINBERG. Well, the poverty rate for everyone reached its minimum in 1973 at 11.1 percent. Since 1973, we have either been constant or above that. I would say that really the 1960s to the early 1970s there was good progress against poverty.

Chairman FORD. The Census Bureau has information to show pockets of high poverty in the country due to the recession and due to the loss of jobs, is that correct?

Mr. WEINBERG. We can only look at small area poverty statistics using this census data.

Chairman FORD. Census tracts in my district have high unemployment areas and pockets of poverty.

Mr. WEINBERG. That is defined using census data though. We don't have a time series on that. We will be issuing a data file on pockets of poverty defined using the 1990 census data some time in the next several months. We just get a snapshot of that once every 10 years.

Chairman FORD. Are you familiar with the pockets of poverty and the high unemployment problems that certain urban and rural areas face?

Mr. WEINBERG. There are some areas in this country with substantial problems, yes.

Chairman FORD. Thank you very much.

Mr. Kopetski.

MR. KOPETSKI. No questions. Thank you, Mr. Chairman.

Chairman FORD. Thank you very much.

We will call our first panel, Lynn Karoly, visiting fellow, economic studies program at the Brookings Institution; Peter Gottschalk, Russell Sage Foundation, Research Affiliate Institute for Research on Poverty, University of Wisconsin; Robert Hill, director, Institute of Urban Research; Morgan State University; and Marvin Kosters, director of economic policy studies for the American Enterprise Institute.

Thank you for appearing this morning. Once again, welcome to the panel and before the subcommittee. Thank you very much for coming. I yield to you in the order that I have called you up. Your full text will be made part of the record. We are going to ask that you try to summarize your statement within a 5-minute period to give members of the subcommittee an opportunity to raise questions or make comments.

**STATEMENT OF LYNN A. KAROLY, PH.D., VISITING FELLOW,
ECONOMIC STUDIES PROGRAM, BROOKINGS INSTITUTION;
AND ECONOMIST, RAND CORP., SANTA MONICA, CALIF.**

Ms. KAROLY. My name is Lynn Karoly. I am pleased to be here this morning to speak before the committee. As you have heard from Dr. Weinberg, the latest Census data reveal a decline in median family income for a third consecutive year, for a 4.9 percent decrease since 1989. Despite the fact that 1992 was fully part of the most recent business cycle upturn, the number and percent of poor persons increased between 1991 and 1992, continuing an upward trend that began in 1989. At the same time a measure of income inequality, the Gini coefficient, reached a postwar peak in 1992, exceeding the previous peak in 1989.

As someone who has been studying the trends in family incomes and the U.S. income distribution, these figures are indeed discouraging, for they appear to confirm the continuing trend toward greater disparity in income in the United States. In the brief time that I have this morning I would like to focus my remarks on the broader distributional implications of the income and poverty data highlighted in the testimony by Dr. Weinberg. I ask that the more detailed statement be entered into the record.

Prior to the release of the most recent Census Bureau data there was evidence that the widening dispersion of incomes had begun to level off in the latter part of the 1980s and maybe even began to turn around. Many wondered has the rise in inequality come to an end. My analysis of the data suggests that the hoped for reversal of this trend is not yet in sight.

First, a brief word about the data I am analyzing. The distributional trends I am going to summarize this morning are based upon an analysis of the Current Population Survey data micro files for the income years between 1967 and 1992. These are the same data used by the Census Bureau and I include data for incomes in 1992 from the March 1993 survey just released 3 weeks ago.

I have analyzed the data somewhat differently than the official Census Bureau tabulations in two ways. First, I have included in-

dividuals who live alone in the income distribution among families. This group, excluded by the Census Bureau tabulations is an increasing component of the overall population and represents a larger share of total family units over time. Including them in the analysis I think provides a more complete picture of the changes in the distribution of well-being across the entire U.S. population.

Second, I also adjust for differences in needs among family units based upon the same equivalency scales in the U.S. poverty lines that Dr. Weinberg mentioned. By measuring each family unit's income relative to their poverty line, I can better compare the well-being of families of different both at a point in time and over time. All of my estimates refer to pretax money income.

What does this analysis reveal? There are several trend I want to highlight. First of all, real gains in median income become evident only after we adjust for changing family size. Since 1973, real median family income has not grown substantially. In fact, when we include unrelated individuals, the median family today is worse off in real terms compared to the median family two decades ago. Once we adjust for changes in family size, however, median income grows a modest 6 percent between 1973 and 1992. One way to view this difference is that families increased their well-being by becoming smaller over time.

Second, rising income disparities have resulted as the poor have lost ground, while richer families have gained ground. The experience of the median family that you saw in the figures presented earlier is not representative of the experience of families at the bottom of the distribution nor of families at the top of the income distribution. Since 1973, there has been a steady erosion in the absolute and relative incomes of families at the bottom of the income distribution, while those at the top have seen much more rapid gains.

For instance, adjusted family income fell 11 percent at the 10th percentile of the distribution between 1973 and 1992, while it rose 18 percent at the 90th percentile. Thus, it is not the case that all boats in the proverbial tide have risen, some rising faster than others. Instead, families at the bottom of the income distribution are worse off in both absolute and relative terms compared to similarly situated families two decades earlier.

Third, the rise in inequality is not just a phenomenon of the 1980s. The growing gap between the incomes of the rich and poor is a phenomenon that dates back to the 1970s and by some measures of inequality, to the late 1960's. Disparities have widened in the last 20 years both in economic downturns and expansions, in particular the 1983 to 1989 period. While the rise in income inequality accelerated in the early 1980s, it has continued to grow through 1992 and there is little evidence of a reversal of the trend.

Fourth, most population subgroups have experienced a rise in income inequality. For instance, the growing disparities evident for the entire population also prevail among white, black and Hispanic families. The widening gap is particularly dramatic among nonwhites. Between 1973 and 1992 real adjusted income at the 10th percentile fell 7 percent for whites, 37 percent for blacks and 28 percent for Hispanics.

At the same time, comparable gains accrued at the top of each group's distribution. The widening gap in incomes is also evident for families of virtually all age groups, for families of different headship types, and for families with children.

I think one of the most important factors affecting family incomes in the last 20 years is the changing structure of wages in the labor market. Here there have been equally dramatic changes in the last 2 decades. Since the 1970s there has been an increase in dispersion in the wage distribution for men, a trend that accelerated in the 1980s. I think here what is most striking is the fact rising disparities were accompanied by real wage declines for most men in the male wage distribution. You have to go to the top quarter of the male wage distribution to find men whose wages are higher in real terms than similarly situated men 20 years ago.

In other words, men in the bottom three-quarters of the distribution have lost ground in the last 2 decades. One consequence is the increased number of men earning low wages, wages insufficient to raise their family's income above the poverty line even if they worked full-time year-round.

There is a bright spot, the trend in wages for women. Here, unlike their male counterparts, there has been real wage growth throughout the wage distribution since the late 1960s. Second, among women wage inequality declined during the 1970s, although it did rise as well in the 1980s.

One of the accompanying shifts in wages is the absolute and relative decline for workers with less education. That is something mentioned by Dr. Weinberg. Since 1979 the median male high school graduate or dropout has seen their real wages decline on the order of 20 percent at the same time that men with a college education experienced real wage gains on the order of 10 percent. Wage differentials between more and less experienced groups of workers also expanded in the 1980s. For many groups such as younger, less educated males, the absolute and relative fall in wages have also been accompanied by increased unemployment rates.

In summary, while the size of the economic pie expanded between 1983 and 1990, a period marking the longest peacetime expansion since World War II, the evidence indicates that the gains were not equally shared. The widening disparities in income in the 1980s represent the continuation of a trend that began at least a decade earlier and the experience in the last few years echoes this earlier trend.

This pattern holds for the country as a whole. It holds for many subgroups of the population. The pattern applies to family incomes and it applies as well to workers' wages.

In my written testimony I also address a number of factors that can explain these trends. Given the shortness of time, I won't focus on those now, but I would be happy to discuss those issues when we open for questions. Thank you very much.

Chairman FORD. Thank you very much.

[The prepared statement and attachments follow:]

PREPARED STATEMENT OF LYNN A. KAROLY*

One of the basic beliefs of the American Dream has been that the standard of living for Americans has improved steadily since the Second World War, and that the *relative* well-being among individuals and families in the U.S. has remained stable. Thus, while the incomes of day laborers and corporate executives might differ in absolute terms, all would be borne up equally by the rising tide of prosperity. This view has been seriously challenged by research demonstrating that the distribution of income in the U.S. has become less equal in the past two decades. The recent release by the Census Bureau of income and poverty data for 1992 provides further evidence that the latest recession and current recovery have not altered this trend.

In this testimony, my aim is to summarize the significant changes in the income distribution over the last two decades, and identify potential explanations for these trends. In the next section, I describe how the distribution of family incomes and workers' wages have changed during the past twenty years. In the third section, I discuss the importance of a number of factors that could be expected to have affected the distribution of family income and wages. These include the impact of tax and transfer policies; the effect of changes in family composition; and supply, demand, and other factors affecting the labor market. Finally, the concluding section considers what we can expect for the future and what policy measures are available to reverse the increasing dispersion in incomes and wages.

HAS RISING INEQUALITY COME TO AN END?

One of the first signs of growing inequality among families was the trend in the Gini coefficient and quintile shares calculated from the annual March Current Population Survey (CPS) by the Census Bureau. In the early 1980s, attention was called to a break in the historical pattern of stability with inequality among families increasing since the late 1960s. Recently released data from the March 1993 CPS show that the Gini coefficient reached a post-war peak in 1992, suggesting that the trend toward greater inequality has continued into the 1990s. [1]

For a number of reasons, the data published by the Census Bureau are not entirely adequate for assessing the trend in economic well-being in the U.S.. In measuring inequality among families, the Census Bureau includes only groups of "two or more persons related by birth, marriage, or adoption and residing together." [1] This definition excludes unrelated individuals, defined as persons living alone or with other unrelated persons, a group that has grown from about one quarter of all "family units" in 1967 to about 33 percent today. In addition, the Census Bureau data make no adjustment for the differences in family income relative to needs. A family of two and a family of four with \$25,000 are treated as being equally well off. The Census Bureau data then does not account for the steady decline in average family size in the United States in the last two decades.

Below, I summarize the results from updating an earlier analysis of the trends in inequality among families and individuals using the CPS micro-data files from 1967 to 1992. [2] The measure of well-being is total family money income before taxes. A measure of adjusted family income that accounts for differences in needs is calculated as family income divided by the poverty line. This measure of adjusted family income better reflects differences in well-being across families. Families are defined to include unrelated individuals. The distribution of income among all persons in the population is obtained by weighting each family by the number of persons in the family.

Trends in the Distribution of Income Among Families

One way of summarizing how the shape of the income distribution has changed over time is by examining the trends in the real (inflation adjusted) incomes of families at the same point in the income distribution. Table 1 summarizes the pattern of income

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changes at five percentile points in the income distribution for families for various subperiods. (Results are also shown for the distribution of income among persons.) The 50th percentile or median reflects the trends in income at the middle of the distribution. The other percentile points reflect the trends at the bottom and top of the distribution. At the 10th percentile, for example, 10 percent of families have income at or below that level. Thus, trends in the 10th and 25th percentiles reflect the experience of families in the bottom of the income distribution, while trends at the 75th and 90th percentiles, reflect the patterns at the top. Two salient points follow from Table 1:

- *In the last twenty years, real gains in median income only appear once we account for declines in family size.* Since 1973, real median income among families and unrelated individuals declined 9 percent. When incomes are adjusted to account for differences in family size, median family income shows a modest 6 percent growth in the last 20 years. Much of the slow growth can be attributed to periods of falling real median income between 1979 and 1983 and 1989 and 1992.
- *Disparities between those at the bottom and top of the distribution have widened over the same period.* The growing gap between incomes at the top and bottom of the distribution is evident in the differential growth rates in incomes at the percentile points shown in Table 1. In every sub-period since 1973, incomes have grown faster (or fallen slower) at the 75th and 90th percentiles compared with the 10th and 25th percentiles. The cumulative effect is striking. Between 1973 and 1992, adjusted family income fell 11 percent at the 10th percentile, while it grew 18 percent at the 90th percentile. A similar pattern holds for unadjusted income among families and for adjusted income among persons.

Figure 1 further demonstrates the growing income disparities among families by plotting each percentile point relative to median income for the full period from 1967 to 1992. By indexing each relative percentile to equal 100 in 1973, Figure 1 shows the gains at the top ranks of the distribution relative to the median, and the corresponding relative losses at the bottom. The growing gap between families at the top and bottom of the income distribution began in the early 1970s, accelerated through the early 1980s, and continued through 1992.

This growing dispersion in the income distribution among families is significant in a number of respects. First, it is a change from the historical pattern of growing average incomes and a more stable distribution of income. Data prepared by the Census Bureau since 1947 show that inequality among families, after declining to a post-war low in 1967-1968, reached a post-war high in 1993. [1] Second, the continued rise in inequality through the 1980s occurred despite the longest peacetime economic expansion in the post-war period. Conventional wisdom holds that the distribution of income becomes less equal during economic downturns since families at the bottom of the distribution are more likely to face income losses during a recession. Periods of economic growth, in turn, tend to be years when the distribution becomes more equal. Although the sharp increase in inequality between 1980 and 1983 is consistent with the back-to-back recessions in 1980 and 1981-1982, the continued rise in inequality through 1989 suggests that more fundamental factors than the business cycle were at work.

Research has also demonstrated that disparities have grown within most subgroups of families. For instance, the increasing inequality is repeated when we look separately at families of different race/ethnicity. [2] Figure 2 shows the percentage change in adjusted family incomes between 1973 and 1992 at the respective 10th, 50th, and 90th percentiles of the income distribution among white, black and Hispanic families. Again, for families in each group, income dispersion increased over the period as incomes grew fastest at the top of the distribution, and slowest at the bottom. Since blacks and Hispanics have lower income on average (i.e., they are more likely to be in the lower ranks of the overall income distribution), families at the bottom of their respective distributions experienced sharp declines in real incomes. For instance, for black and Hispanic families at the 10th percentile, real incomes declined 37 and 28 percent, respectively -- a sharper decline than that experienced by whites at the same percentile. As a result, inequality increased to a greater degree among families headed by minorities compared to white families. A similar analysis for families of different ages and with different compositions shows that inequality increased for virtually all groups of families during the last two decades. [2]

Accounting for Taxes and Transfers

Until now, I have focused on changes in the distribution of family income before taxes and without including the value of nonmonetary transfers such as Food Stamps or medical insurance. Since the tax and transfers system overall is progressive, redistributing income from families with high incomes to those with lower incomes, there is less disparity

in the post-tax post-transfer distribution of income. However, because the redistributive impact of taxes and transfers declined during the 1980s, the rise in income inequality is even larger when a more comprehensive measure of income is used. [3]

During the 1980s, two major pieces of tax legislation affected the post-tax distribution of income. The Economic Recovery Tax Act (ERTA) of 1981, passed within a year of Ronald Reagan's inauguration, reduced the top marginal tax rate from 70 percent to 50 percent, and phased in a 23 percent reduction in the marginal tax rates in other income brackets. One consequence of ERTA, and of later increases in social security payroll taxes, was to reduce the progressivity of the tax system during the first half of the 1980s. Later, the 1986 Tax Reform Act (TRA) specifically targeted changes in the tax code to benefit those at the bottom of the income ladder (by increasing the personal exemption, standard deduction, and the Earned Income Tax Credit). Despite a further reduction of top marginal tax rates, most analysts have concluded that the tax system became slightly more progressive as a result of TRA. Nevertheless, the net impact of tax changes during the 1980s was to contribute to the rise in inequality. [3] Since the redistributive impact of cash and noncash transfers remained essentially unchanged during the 1980s, tax and transfer policy as a whole contributed to the rise in inequality over the decade. [4]

Workers and Their Wages

Given that about 80 percent of family income is derived from the labor market, changes in the wage structure are linked to the overall distribution of income. In the last two decades, there have been equally dramatic changes in the distribution of wages among workers. Since the 1970s, there has been an increase in dispersion in the wage distribution for men, a trend that accelerated during the 1980s. Among women, the rise in wage inequality is a more recent phenomenon, starting in the 1980s. This pattern holds for annual wage and salary income, weekly wages, and hourly wages. Since inequality increased among all workers as well as full-time year-round workers, the rise in wage dispersion cannot be attributed to changes in the proportion of part-time part-year workers. [2]

To illustrate these trends, Table 2 shows the percentage change in real weekly and hourly wages for various subperiods for all workers, and separately for men and women. For men, wage dispersion increased in every subperiod between 1967 and 1992, with the sharpest increase occurring since 1979. Between 1975 and 1992, weekly wages after adjusting for inflation declined 12 percent at the 10th percentile, while wages grew 10 percent over the period at the 90th percentile. Even the median male worker saw real wage declines on the order of 9 percent since 1975. Thus, men in the upper segments of the distribution were the only ones to experience real wage growth in the last two decades.

A brighter picture emerges in the wage trends among women. First, unlike their male counterparts, there has been real wage growth for women throughout the distribution since the late 1960s. Second, women differ from men in that wage dispersion actually declined until 1979, as wages grew fastest at the 10th and 25th percentiles compared to the 75th and 90th percentiles. Nevertheless, the compression of the female wage distribution was reversed in the 1979 to 1989 period, as women at the top experienced faster wage growth than women at the bottom. Despite the rise in wage dispersion among women, at each point in the distribution, real weekly wages were higher by 18 to 31 percent in 1992 compared to 1975, a sharp contrast to the real decline in male wages.

One of the more striking changes in the wage structure in the last decade is the growing wage gap between more and less educated workers. Figure 3 illustrates this phenomenon for men by showing the trend in real median weekly wages for three groups: those with fewer than 12 years of schooling (high school dropouts), those with 12 years of schooling (high school graduates), and those with 16 years of schooling (college graduates). Between 1973 and 1979, real wages declined for all three groups, although the larger drop in median wages for college educated workers indicates a decline in the college premium during that period. Since the late 1970s, the trend in real wages is dramatically different for the three groups. While the median high school graduate or drop out continued to experience real wage declines up to 20 percent, the median college graduate benefited from almost a 10 percent growth in real wages since 1979. Wage differentials between more and less experienced workers also expanded during the 1980s. In addition, for many groups, such as younger less-educated workers, the absolute and relative fall in wages have been accompanied by a reduction in employment opportunities, evidenced by higher unemployment rates. Thus, for example, young black high school dropouts now face reduced prospects in the labor market both in terms of the likelihood of securing employment, and in the economic rewards for work.

Trends in Income Mobility

Thus far, in order to assess how the distribution of income has changed over time, I have relied on a series of annual snapshots, or cross-sections, of how incomes or wages are distributed across families or workers. Thus, the trends shown in Figure 1 do not reflect changes in income for the same families over time, but for families at the *same position* in the income distribution. The alternative is to follow the *same families* over time to measure their movement within the income distribution. This approach can also be used to study the distribution of income measured over longer time periods, such as a decade or a lifetime. By tracking incomes for the same families or individuals, we can also obtain a picture of the amount of mobility within the income distribution.

Some recent studies using data that follow the same families over time have produced findings that are consistent with the cross-sectional data showing a rise in family income inequality. First, studies using a more permanent measure of family income (e.g., measured over a 10-year period instead of a single year) also show a rise in inequality since the 1970s. [5] This means that, after smoothing over annual fluctuations in income, there is still more disparity in today's income distribution compared to 10 or 15 years ago. These findings suggest that if we could measure income over an individual lifetime, we would also see a rise in inequality.

Second, while analyses based on following the same families over time show that there is considerable mobility within the income distribution, the data indicate that some of the upward paths were less well traveled during the 1980s. For example, one study found a reduction in the proportion of individuals who attained a middle class level of income, as fewer people climbed up from and more people slipped into the lower income ranks. [6] The risk of downward mobility was higher for blacks, households headed by women, and those with less than a high school education. At the same time, a higher fraction of individuals moved into the upper income category, while fewer dropped out. The study concluded that education was the single most important factor in increasing the chances of upward transitions, and reducing the likelihood of downward movement.

At this point, further analysis is needed to fully understand changes in income and wage mobility over the last two decades. Annual data reveal a growing gap, in each successive year over the past two decades, between families and workers at the top and bottom of the distribution. Despite the greater degree of inequality, there is still considerable mobility within the income distribution, but that mobility is contingent to a greater extent today on family structure and one's education.

EXPLAINING THE RISE IN INCOME AND WAGE DISPARITIES

While evidence of rising income and wage disparities in the last two decades is well documented, the debate continues about the causes of the trends. The observed distribution of income is the result of a complex set of factors including the opportunities individual's face, their decisions given those opportunities, and a set of public and private institutions that help determine how society's output is allocated across families and individuals. Identifying the factors producing these trends is an important first step toward determining if policy can attenuate or reverse the trends. In the remainder of this section, I discuss a number of possible explanations for the rise in family income inequality and wage inequality.

The Impact of Fiscal Policies of the 1980s

One of the ways in which government policy affects the income distribution is through tax and transfer policy. As noted above, the distributional changes of the 1980s were accompanied by substantial revisions to the tax code, in 1981 and later in 1986. At the same time, real transfer spending declined during the decade, particularly for programs targeted at low income families. These changes have led some to suggest that fiscal policies may have directly altered the income distribution, by changing post-tax, post-transfer incomes. These policies may also have indirectly altered the distribution, by changing pre-tax, pre-transfer incomes. For instance, some analysts have claimed that the rise in family income inequality during the 1980s was caused by the sharp reduction in marginal tax rates for high income taxpayers, inducing them to work more, report more income on their tax returns, shift compensation toward taxable forms, and realize more capital gains.

A review of the evidence in support of a direct or indirect role for fiscal policies provides mixed results. [3] First, the direct impact of tax and transfer policy was in the direction of increasing inequality due to a decline in tax progressivity and reductions in transfer programs. Even so, the rise in pre-tax income inequality explains about 80 percent of the increase in post-tax inequality in the last decade. In other words, only 20 percent of

the increase in post-tax inequality can be explained by the declining progressivity of the system. Estimates of the possible behavioral responses to tax policy changes during the 1980s are not large enough to account for, and often inconsistent with, the observed rise in income dispersion. The rise in inequality also predates the tax changes during the 1980s, so the modifications in fiscal policy cannot be the only culprit.

The Effect of Family Composition Changes

The period of rising income dispersion has been accompanied by significant changes in family structure that can help explain the distributional trends. Single individuals and female-headed families represent a growing share of all family units. For instance, today approximately one in six families is headed by a woman, compared to just one in ten families twenty years ago. At the same time, traditional husband and wife families with a working wife, once in the minority, now make up more than 60 percent of these families. The number of younger and older families have also both increased, in part reflecting the influx of post-war baby boomers into the family ranks. These various demographic factors could be expected to increase the number of low income and high income families.

A number of studies have examined the impact of these compositional changes. In one analysis, I estimated that about one-third of the rise in inequality between 1967 and 1987 can be explained by shifts in household composition toward single-parent families and single individuals. [2] However, the changing age composition of families played no role in the growing income disparities over the period. The contribution of an increase in the number of working wives is not clear. On the one hand, studies generally concur that wives' earnings tend to equalize the distribution of income among married-couple families, with little change in this equalizing effect over time. At the same time, the data also suggest that the earnings from secondary earners or family spouses may have contributed to the rise in income disparities among all families. [3] Although the effects of these compositional changes appear to be substantial, they do not fully account for the rising income disparities among families.

Supply, Demand and Other Factors Affecting Labor Markets

As noted above, the largest component of family income is derived from the labor market. Compared to other sources of income, the rise in wage inequality, especially for family heads, had a significant impact on family inequality. For instance, in a hypothetical world, with no increase in wage inequality among family heads between 1980 and 1985, I have estimated that the rise in inequality would have been about 30 percent lower. [3] What factors can explain the significant changes in the wage structure over the last two decades? A number of explanations have been offered, including supply-side changes such as the baby boom, and immigration; demand-side factors like deindustrialization, international competition, and technological change; and changes in wage setting institutions such as unions.

One of the most significant demographic changes to take place in the last two decades was the entry of the baby boom into the labor market during the 1970s. While the baby boom can help explain the trend towards greater wage inequality during the 1970s, it does not appear to have contributed to the trend during the 1980s. In the last decade, the proportion of younger workers in the labor market declined which should have improved their relative wages. In fact, recent changes in the age structure of the work force slowed the rise in inequality.

Another supply-side factor affecting the labor market is the influx of legal and illegal immigrants into the work force. It is estimated that nearly 12 million legal immigrants, plus an additional 5 to 6 million illegal immigrants, entered the United States since 1970. Since immigrants earn lower wages on average, their increased numbers in the labor market could have a similar impact as the baby boomers: increasing the number of low wage workers and reducing the relative wages of lower skilled workers. Based on research to date, the impact of immigration on the national or regional wage distribution is uncertain. Typically, studies of how new immigrants affect a local or regional labor market find evidence of only a small, if any, negative impact on the wage structure. For instance, one study of 24 cities in the United States during the 1980s found weak evidence of a relationship between the share of immigrants in the labor force and the level and shape of the wage distribution. [7] In contrast, another recent analysis estimated that the increased flow of immigrants during the 1980s explains a large fraction of the decline in relative wages of high school dropouts, the group of workers most likely to be affected by an influx of lower-skilled workers. [8] However, this study did not evaluate the impact of immigration on the overall level of wage inequality.

Some have argued that the growth in service sector employment at the expense of the manufacturing sector has contributed to increasing wage dispersion. Since manufacturing jobs pay higher wages on average compared to the service sector, and since wage dispersion is higher in service industries, it is possible that the continual growth of the service sector and loss of manufacturing jobs may have contributed to rising wage inequality. Indeed, there have been significant shifts in the industrial distribution of employment in the last 20 years. The share of manufacturing employment has declined from 30 percent to less than 20 percent, while the share of employment in the services industries has steadily increased so that now three out of five workers are employed in this sector. Despite the significance of these shifts, the contribution of deindustrialization is not exceptionally large, explaining about 10 to 20 percent of the growth in wage inequality on average. Even in areas with the largest declines in manufacturing, such as the rust belt states, the contribution does not exceed 25 percent. [9] The finding that wage inequality has increased *within* most industries explains why sectoral shifts alone cannot account for the changing wage structure.

During the period of rising wage inequality, foreign competition has also had an increased impact on the economy. In the last two decades, the share of trade in the United States economy has doubled, from 8 percent to 16 percent of gross domestic product. Also, during the 1980s, the United States experienced a dramatic worsening of the trade deficit after years of a more balanced trade pattern. The increased competition from abroad differentially affects the demand for domestic workers with varying characteristics. For example, lower-skilled and less-educated workers are concentrated in exporting and import-competing industries, such as automobiles or consumer electronics. These workers are in industries with declining demand, which would reduce their relative wages. In contrast, nontraded goods and services industries, such as professional services, employ a more educated and highly skilled workforce. One study that quantified this effect found that a substantial part of the relative wage losses of high school dropouts, and a somewhat smaller share of the relative growth of wages for college graduates, is attributable to the trade patterns during the 1980s. [8] But here again, research has yet to determine with any certainty the specific contribution of international competition to the overall rise in wage inequality.

The role of technological change, another potential contributor to rising inequality, is harder to assess. Throughout the last two decades, the increased use of technology, from computerization to automation, has changed the work place. The impact of the new technologies on workers and their wages is uncertain. On the one hand, technological change may displace jobs previously performed by lower-skilled workers. The new technologies often require greater skill, thereby enhancing the demand for and productivity of more skilled workers. At the same time that some jobs demand greater skill, changes in technology may reduce the skill-content of other jobs, creating greater dispersion in the skill requirements of the workforce. Thus, the contribution of technological change is difficult to assess. However, the fact that we have seen a substantial rise in the economic benefits from increased education suggests that the demand for skill has been rising, perhaps as a consequence of technological change. This hypothesis finds support in a recent study which found that workers who use a computer on their job earn about 10 to 15 percent more than otherwise similar workers. [10]

In addition to supply and demand forces, the structure of wages is determined by a number of institutional factors, most notably unions. In their role as a wage setting institution, unions both raise average wages and reduce wage dispersion among organized workers. There is also evidence that they help to reduce the overall degree of wage inequality. During the last two decades, the United States, like a number of other industrialized countries, has experienced a decline in the fraction of the workforce that is unionized. In the early 1970s, nearly 1 in 3 workers was a union member, while today the figure is fewer than 1 in 6. Despite these trends, the decline in unionization rates can explain only some of the rise in male wage inequality, on the order of 10 to 20 percent. [11] This is because wage inequality has increased for both unionized and nonunionized workers. Thus, even if the entire workforce had been unionized, wage inequality would have still increased.

It should be evident by now that no single factor caused the rise in income or wage dispersion. Instead, the trends appear to result from a number of demographic, economic and policy factors. Despite the efforts of a number of researchers, we do not yet have a complete systematic accounting of the various factors that have contributed to the rise in income and wage inequality.

IMPLICATIONS FOR THE FUTURE AND POLICY OPTIONS

Regardless of what caused the trends, the two decade rise in income and wage dispersion in the United States is troubling. If the growing inequality had been

accompanied by real gains for families and workers throughout the income scale, the trends might be less alarming. What gives rise for concern is that rising disparities go hand in hand with stagnation in family incomes and worker's wages. Recall that families at the bottom of the distribution are worse off in real terms compared to similarly situated families two decades ago. Moreover, among men in the labor market, even the median worker found himself worse off in real terms compared to his counterparts in previous years. These patterns of income and wage growth have implications for other areas of social concern, as they are linked with issues such as the rise in poverty, patterns of residential segregation, and trends in the homeless population.

Given what we know about the direction of the trends and their potential causes, what can we expect for the future? There are two factors which suggest that the trends are not likely to be rapidly reversed. First, although the time series indicate that the level of inequality grew more slowly in the later part of the 1980s, the latest recession resulted in a continuation of the trends. Second, many of the factors most strongly linked to the trends in inequality represent fundamental changes in the structure of the economy, rather than short run phenomenon. For instance, future workers will still compete in a global economy, and technological advances are likely to continue to change the skill content of jobs. There is a possible role for other factors in altering the future course of income and wage trends. Demographic changes in the coming decade, namely the baby bust cohorts which are following the baby boom, may help improve the relative position of younger families and workers. In addition, the rise in returns to education in the 1980s may encourage an increase in educational attainment. Indeed, data on school attendance show a rise in college enrollment rates among recent high school graduates, reversing a downward trend in the 1970s. An increase in the supply of college graduates will tend to dampen the current gap in wages between more and less educated workers.

If the trend toward more inequality in the distribution of income and wages continues, what measures are available to policymakers to counteract this trend? There are several options that invite consideration. One approach is to promote policies that encourage strong economic growth, with the expectation that all families and individuals will gain from actions that encourage job creation and high output growth. While macroeconomic policies that brought about economic growth led to a more equal distribution of income in the past, the lesson of the 1980s is that there is no guarantee that all will benefit from high growth policies. As indicated earlier, the recent rise in inequality continued throughout the 1980s despite the long economic expansion. The importance of shifts in the structure of the economy, outlined in the previous section, suggest that macroeconomic policies alone are not an adequate solution.

An alternative and more direct redistributive tool available to policymakers is changes in the progressivity of the tax system. To what extent can tax policy counteract the trend in pre-tax income inequality? One recent study to address this question indicates that the answer is very little. [12] Simulations of substantial changes in the tax code, including increasing the top marginal tax rate from 28 to 50 percent and doubling the Earned Income Tax Credit, estimate only a modest impact on the post-tax distribution of income. This is because much of the rise in inequality results from changes in the distribution of private incomes, such as wages and capital income. While these simulations suggest that there may be little opportunity to use the tax system to redress the rise in pre-tax income inequality that has taken place since the 1970s, policymakers can use the tax and transfer system to shore up the incomes of families and individuals at the bottom of the income distribution. Thus, changes such as those embodied in the 1986 Tax Reform Act, which removed about 5 million poor persons from the tax rolls, provide a way of increasing the well-being of those at the bottom of the income ladder even if they result in a small reduction in overall inequality.

If the indirect and direct redistributive tools do not offer solutions, a third approach is to use public policy to address the structural changes that have occurred in the economy over the last two decades. Such policies would be designed to alter the opportunities faced by individuals and families, or the choices they make given those opportunities. For example, public assistance programs could be reformed to reduce dependency and encourage low income families to become self-sufficient through job training and enhanced employment opportunities. Industrial policies and strategic trade policies could be used to influence the industrial composition of the economy and the mix of skills required of the workforce. Education and training policies could be designed to encourage investments in the skills of the labor force, whether through tax and other incentives to businesses or by targeting incentives to individuals. These types of policy options are, by their nature, more controversial and less certain in terms of their impact. They are controversial because they entail a more activist role for government in order to influence the private decisions of individuals and firms in the economy. Their impact is less certain because they only indirectly alter family incomes and workers' wages, and their effect may not be felt for years after their implementation. In my view, such remedies deserve serious consideration

due to the significance of the distributional changes and the likely ineffectiveness of traditional redistributive policies.

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Table 1
Percentage Change in Real Absolute Income Percentiles: Various Years

Period	Family Income					Adjusted Family Income ^a				
	Percentile					Percentile				
	10th	25th	50th	75th	90th	10th	25th	50th	75th	90th
			a. Families and Unrelated Individuals^b							
1967-1973	24.5	11.9	13.4	18.3	19.4	20.3	17.1	16.9	17.3	17.0
1973-1979	-0.3	-2.6	-4.3	1.1	2.6	2.2	2.4	4.9	5.9	4.7
1979-1983	-10.3	-7.0	-6.1	-3.8	-0.7	-11.0	-7.7	-2.7	0.4	3.2
1983-1989	6.7	6.1	8.4	10.1	12.5	7.4	10.3	11.0	11.9	14.7
1989-1992	-9.5	-9.0	-6.9	-4.5	-4.3	-9.0	-6.9	-6.5	-5.1	-4.7
1973-1992	-13.6	-12.6	-9.3	2.3	9.6	-11.1	-3.0	6.0	12.9	18.2
			b. Persons^c							
1967-1973						14.9	17.4	20.5	20.1	18.6
1973-1979						1.0	4.0	6.7	8.1	7.3
1979-1983						-16.8	-10.4	-4.0	-0.4	2.4
1983-1989						10.6	11.6	12.8	12.9	15.7
1989-1992						-9.5	-7.1	-5.2	-4.5	-4.9
1973-1992						-15.9	-3.4	9.6	16.1	20.9

^aMeasured as total family income divided by the poverty line, where the 1967 poverty threshold is inflated using the CPI-X to calculate the poverty lines after 1967.

^bWeighted by families.

^cWeighted by persons in families.

SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

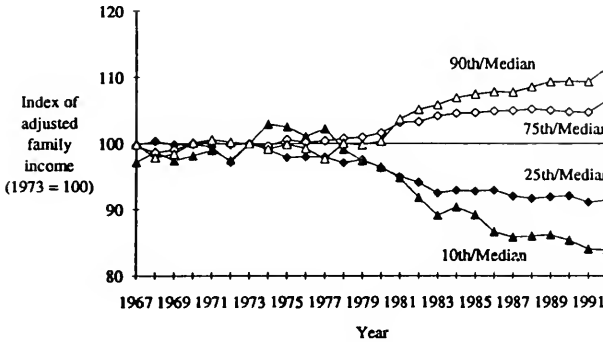
Table 2
Percentage Change in Real Absolute Wage Percentiles: Various Years

Period	Weekly Wage					Hourly Wage ^a				
	Percentile					Percentile				
	10th	25th	50th	75th	90th	10th	25th	50th	75th	90th
			a. All Workers							
1967-1974	12.5	2.0	2.2	8.8	10.1					
1975-1979	6.3	6.1	-0.6	4.1	3.7	7.5	3.3	-0.3	2.6	2.8
1979-1983	-11.1	-8.8	-4.1	-3.9	-1.2	-7.3	-6.3	-2.0	-1.7	-0.8
1983-1989	9.0	6.0	9.0	7.3	5.7	-3.8	1.9	4.4	5.3	4.6
1989-1992	-2.7	-2.3	-1.1	-3.7	-1.1	2.3	-1.7	-1.8	-2.7	-0.6
1975-1992	0.2	0.2	2.7	3.3	7.1	-1.9	-2.9	0.1	3.3	6.0
			b. Men							
1967-1974	-1.1	1.7	7.8	10.5	13.8					
1975-1979	3.3	-1.5	0.6	5.3	6.4	1.6	-0.7	1.0	4.9	1.6
1979-1983	-15.1	-10.8	-5.7	-3.6	-0.9	-8.4	-9.1	-5.8	-3.5	0.5
1983-1989	4.4	1.3	0.6	3.7	7.5	-4.8	0.5	-0.4	0.9	3.5
1989-1992	-3.8	-6.8	-4.5	-2.8	-2.8	-1.7	-5.4	-4.4	-3.6	-3.0
1975-1992	-12.0	-17.1	-8.9	2.4	10.2	-13.0	-14.1	-9.4	-1.6	2.5
			c. Women							
1967-1974	18.9	12.2	10.1	6.5	4.9					
1975-1979	12.0	10.9	8.1	4.2	4.4	10.0	7.2	4.7	3.3	4.4
1979-1983	-6.1	-4.2	-1.5	5.5	5.4	-3.4	-4.2	0.7	3.5	4.0
1983-1989	11.2	8.2	12.5	12.6	16.8	-0.7	2.9	6.6	10.0	13.1
1989-1992	2.5	2.1	-0.4	2.4	2.1	3.5	-0.9	1.1	1.4	2.3
1975-1992	19.9	17.5	19.3	26.8	31.2	9.3	4.7	13.6	19.3	25.7

^aHourly wage data are not available from 1967 to 1974.

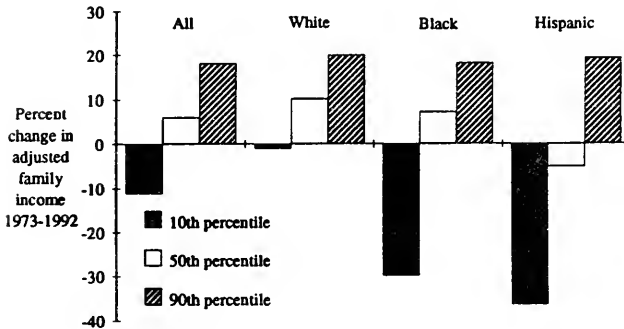
SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

Figure 1
Trends in Adjusted Family Income Among Families and Unrelated Individuals:
Percentiles Relative to the Median



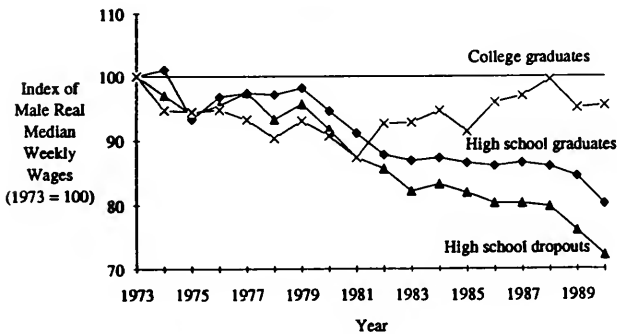
SOURCE: Author's tabulations from the March CPS from 1967 to 1992.

Figure 2
Trends in Adjusted Family Income: By Race/Ethnicity



SOURCE: Author's tabulations from the March CPS from 1973 to 1992.

Figure 3
Trends in Median Real Weekly Wages for Men: By Education



SOURCE: Author's tabulations from the May and monthly CPS from 1973 to 1990.

STATEMENT OF PETER GOTTSCHALK, PH.D., VISITING SCHOLAR, RUSSELL SAGE FOUNDATION; RESEARCH AFFILIATE, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN; AND PROFESSOR OF ECONOMICS, BOSTON COLLEGE

Mr. GOTTSCHALK. Thank you for inviting me to speak before this panel. Lynn Karoly and I agreed that she would review the numbers and that I would talk a bit about the causes.

One can't help but look at the numbers and be disappointed in the recent 2 decades, a period of slow growth and growing inequality. This is a very sharp break with the past.

You have to remember that between 1940 and the mid-1970s we had long periods of growth. Furthermore, the growth accrued mostly to people at the lower end of the distribution. If anybody gained more than anyone else, it was the people at the bottom who gained relative to those at the top. Between the late 1940s and early 1960s, we cut poverty rates in half. In the next 15 years we cut poverty rates in half again.

Contrast that with the data that you saw this morning. The lack of progress during the 1980s and '90s, has to be contrasted with this earlier period.

The sharp break comes in 1973. That is a key year in my mind.

At that point we had poverty rates of 11 percent. Contrast that with 14.5 today. Today we have poverty rates which are 30 percent higher than in 1973. Put in perspective, consider a 20-year-old. When they were born, poverty rates were as low as they would ever be.

My testimony is in three parts. The first is simply to try to deal with some of the questions about how much of the increased poverty rate is due to increased female headship and how much is due to increases in inequality. The second part of my testimony tries to look at explanations for the increase in inequality. Third, I reflect on what I see coming in the future.

Since you have already seen figure 1 in the earlier testimony, let me go directly to figure 2. The top part of the graph simply shows the poverty rate. It highlights that in 1973 poverty rates were 3.4 points lower than they are today. I explain why we have poverty rates which are over 14 percent today when we achieved a poverty rate of 11 percent almost 2 decades ago.

At the bottom of figure 2, I present the results of a decomposition. We had modest growth between 1973 and 1992. If that growth had been equally divided, if everyone had had the same increase in incomes, poverty rates would have gone down by 1.1 percent. That means that instead of announcing a poverty rate of 14.5, the Bureau of the Census would have announced a poverty rate of 10 percent.

Why do we see 14.5 instead? The biggest factor is this increase in inequality. Poverty rates are 2.1 points higher today because of this increase in inequality. The people at the bottom didn't get the average raise. They, in fact, had negative raises while those at the top had large positive raises. The other factor is that the groups with the highest poverty rates, female-headed households, make up an increasing proportion of the population. That raises poverty rates by 1.8 points.

Note that the increase in inequality is more important than these demographic changes. Whenever we discuss poverty, people always go back to the changing family composition. There is no question that poverty rates today are higher because we have more single-parent households. That is not in dispute. The question is whether this is the only thing that is going on. The answer is no. The increase in inequality is even more important.

In the second part of my testimony I will examine why the increase in inequality happened. I will run through a list of things that people have looked at. The first are easy to reject.

The first possible explanation is demographics. We had a lot of young people coming on the labor market. They may have depressed wages at the entry level, however, when we had the baby bust, we should have observed earnings of young people going up. They continued to decline.

Ten years ago one hoped that all we were seeing was a bubble. Once the baby boom got through, inequality would go away. That didn't happen. There is something more fundamental going on.

The next explanation was that the increase in public assistance, those programs listed in the Green Book, were causing people to work less and that is why the bottom of the earnings distribution was falling out. In that case you would have expected that when we cut programs, as happened during the 1980s, that you would have observed inequality starting to decrease. You didn't see that. Inequality continued to increase. Furthermore, inequality increased among all groups. Take older, college-educated white males. Those folks aren't getting a lot of public assistance and yet inequality has increased among that group. So public assistance simply can't be the main answer.

The business cycle affects inequality. Inequality always goes up during recessions and goes down during expansions. But during the post-1982 expansion, inequality continued to go up. There is something much, much more fundamental going on than simply business cycles.

There are several more factors which explain a little piece of the rise in inequality. But the big explanation is there has been a change in technology that has increased a demand for more skilled workers. It is not an evil bureaucrat, it is not an evil policymaker or boss who has made this change, but basically people have discovered ways of making things which increase the demand for high-skilled people and decrease the demand for low-skilled people.

Since earnings make up the vast majority of family income, inequality of family income also increases. Poverty increases. So it is technology that is driving poverty.

If you happen to have come on the labor market in 1993, you were much worse off than if you came on the labor market in 1973. That is not your fault. Some kid who is coming on to the labor market today has prospects which are very different from a person who happened to be born 20 years earlier. In my view, we as a society have an obligation to do something for those kids, for those older people who are being displaced.

I see very little hope. The demographics are not going to change. At best, we are going to get a stabilization in the proportion of single-parent households. I don't see economic growth taking off to get us back to poverty rates where we were before. The only thing that can be done is to take action, which this committee can take, to try to help the plight of people who are subject to much wider forces beyond their control.

Thank you.

Chairman FORD. Thank you.

[The prepared statement and attachments follow:]

STATEMENT OF PETER GOTTSCHALK, RUSSELL SAGE FOUNDATION

Why Have Poverty Rates Remained so High?

Peter Gottschalk

Thank you for giving me the opportunity to testify on changes in the level and distribution of incomes in the U.S., as reported by the Bureau of the Census. The trends in American living standards have been disappointing. We have lived through two decades of slow growth and a growing gap between the rich and the poor. This has resulted in poverty rates that are substantially higher in 1993 than they were two decades earlier.

The economic hardship that affects so many Americans represents a sharp break with our recent economic history. During the 1950's, 60's, and first half of the 1970's, the incomes of the rich, the poor and the middle class all increased at similar rates. If some benefitted more than others, it tended to be those, such as the least-educated and racial and ethnic minorities, who had started at a greater disadvantage. This experience led to the conventional wisdom that a "Rising tide lifts all boats," and that a healthy economy would generate continuously falling poverty rates.

Indeed, the official poverty rate was cut in half between the late 1940's and the early 1960's, and cut in half again by the early 1970's. Income inequality also diminished somewhat over these two decades.

As Lynn Karoly's testimony has shown, these trends were reversed during the 1980's. Incomes grew slowly and inequality grew sharply. My testimony which builds on this material, is in three parts. First, I will show how the slow growth in average incomes, the increase in female headship and the rise in inequality, translated into poverty rates that were as high in 1992 as in 1966. I will show that the increase in inequality was even more important than the rise in female headship in accounting for these unusually high poverty rates in the early 1990's. The second part of my testimony will focus on the causes for the sharp increases in inequality. Finally I will offer some speculation about the future of poverty and inequality.

I. The Impact on Poverty of Slow Growth, Rising Inequality and Changing Demographics

Historically poverty rates have risen during recessions and fallen during expansions. Incomes increase for those at the bottom as well as the top of the distribution. The result is that some previously poor families climb out of poverty. While this was the norm during the post-war period something happened in the 1970's which broke the link between economic growth and poverty. The incomes at the top of the distribution rose rapidly while those at the bottom either rose much more slowly or actually fell. This led to the anomaly of high poverty rates even when average incomes were hitting all time highs.

Figure 1 shows the historical series on poverty rates and median household income. Two periods stand out. Prior to 1973, the poverty rate declined rapidly as mean income grew. Families across the distribution gained from the rapid growth. The result was sharply falling poverty rates. After 1973 average family income continued to increase, though more slowly, but the poverty rate failed to return to its 1973 value. By 1992 family income adjusted for the decline in family size was 7 percent higher than in 1973. This increase in average adjusted family income by itself would have lowered poverty if all families had benefitted. Poverty rates, however, increased to 14.5 percent.

- Poverty rates were 3.4 points higher in 1992 than in 1973 (14.5 versus 11.10), in spite of the modest growth.

*This testimony is largely based on joint work with Sheldon Danziger, sponsored by the Russell Sage Foundation.

The poverty rate did not fall back to its 1973 level because the poverty-reducing effect of growth was countered by two other factors: (1) the rise in inequality and (2) the changing demographics (mostly an increase in female-headed households) who tend to have higher poverty rates.

Figure 3 decomposes the change in poverty into these three pieces.

- By itself, economic growth would have lowered poverty rates by 1.1 points between 1973 and 1992.

In other words, if we would have had the same demographics and no increase in inequality, the Bureau of the Census would have announced that poverty rates were 10.0 percent in 1992, rather than the announced 14.5.

Why did poverty rates remain so high?

- Increases in inequality raised poverty rates by 2.1 points.

In other words, economic growth and changes in inequality alone would have resulted in poverty rates of 12.1 points rather than the 14.5!¹

Since the demographic groups with higher poverty rates make up an increasing proportion of the population, poverty rates increased due to demographic shifts.

- Changes in family structure, mostly an increase in female headship, accounts for an additional 1.8 points in the poverty rate. Changes in the ethnic and racial composition of the population accounts for the remaining .6 points.

Thus, the 1.1 point drop in the poverty rate which we would have expected from the growth in adjusted family income between 1973 and 1991 was more than offset by the rise in inequality and the shift in family composition. While the increase in the number of female headed households is often used to explain high poverty rates, it is important to remember that the increase in inequality had an even larger effect on poverty.

This decomposition of the change in poverty shows the importance of changes in the distribution of income in understanding changes in inequality of family income during the 1980's. This increase in inequality of family income was largely driven by changes in the distribution of earnings. Why did labor market earnings become so unequal in the 1980s? It is to this topic that I now turn.

II. Why Did Inequality Increase?

As Lynn Karoly's testimony has shown, income gains in the 1980's were highly concentrated. The most disadvantaged benefitted the least. The young gained much less than the old; less-educated workers gained much less than more-educated workers; two-parent families with children gained more than single-parent families; whites gained more than blacks and Hispanics. Poverty remained high and income inequality increased.

The facts regarding increasing earnings inequality are, by now, largely uncontested. Attention has shifted from documenting what happened to understanding why it happened.

¹The 1973 rate of 11.1 would have been lowered by 1.1 due to economic growth and raised by 2.1 points due to the increase in inequality (11.1 - 2.1 = 12.1).

In the following sections I review what we know about the forces that caused the pulling apart of earnings during the 1970's and 1980's. While the search for a unique explanation of the increased inequality of wages over the last two decades has been illusive, progress has been made in narrowing the field of possible explanations.

Changes in cohort size

One of the major developments during the 1970's was the large increase in the number of young workers and in the number of wives entering the labor force. This purely demographic change could have had an effect on the distribution of earnings if the inflow of young workers and women depressed entry level wages. New entrants competing for a limited number of jobs may have put downward pressure on wages for these jobs.

- The problem with this explanation is that it is contradicted by the continued increase in inequality during the 1980's. The dearth of young workers in the late 1980's and 1990's has not led to an increase in their relative wages.

Changes in government income transfers

Another explanation focuses on adverse behavioral responses to government income transfers. Increased benefits, especially in income-tested welfare programs, may have eroded work incentives and led to the increase in inequality. This explanation again does not fit the facts very well.

- Since earnings inequality grew in almost all groups, including highly-educated males who do not typically receive welfare, this could not be the primary explanation.
- The time series evidence is inconsistent with this explanation. The real value of welfare benefits increased most between the early 1960's and the mid 1970's, but fell thereafter. There were no reversals in the trends of either family composition or work effort when real welfare benefits began to fall.
- The extensive experimental literature shows that the magnitudes of the labor-supply and family-structure effects of transfers are much smaller than those required to explain the increase in inequality.

Business Cycles

Historically inequality has risen during recessions and fallen during expansions. Until the early 1980's, a plausible case could have been made that the increased inequality was nothing more than the expected response to the recessions of 1974-75 and 1979-80. The 1983-89 recovery, however, laid this explanation to rest.

- As the economy came out of the recession, inequality should have declined. Instead it continued to climb.

While the previous explanations for the increase in earnings inequality are largely rejected, other explanations seem to provide at least a partial explanation.

Minimum Wage

Between 1981 and 1988, the minimum wage remained fixed in nominal terms at \$3.35. With rising inflation, the minimum wage

declined in real terms by 23.3 percent during this seven year period. This erosion may have been partially responsible for the increase in inequality during the 1980's.

- While the minimum wage might be a factor reducing real wages and rising inequality among young people and workers with low education, it could not be an important factor in the increased inequality in earnings of prime age college graduates.
- Evidence provided by Horrigan and Mincy (1992) shows that allowing the minimum wage to erode with inflation increased earnings inequality, but not by much.

The effect of the minimum wage on family income inequality is even smaller than its effect on wage inequality since many of persons earning the minimum wage are young people living in higher income families.

Decline in Unionization

During the late 1970's and 1980's union density fell by a little less than one percentage point per year. Inasmuch as unions were an equalizing force, the decline in unionization could potentially explain part of the rise in inequality during the late 1970's and 1980's

- Unionization can account for roughly 20 percent of the increased inequality.

In a colorful description Freeman (1992) concludes that "Overall, declining unionization was a supporting player in the story of the increase in inequality: Rosencrantz or Guildenstern, not Hamlet." (p159)

Economic Restructuring

The 1980's were marked by substantial shifts in the industrial structure of most developed economies. Manufacturing declined and service sector employment increased. The resulting "deskilling" of blue collar workers could have led to the increase in inequality.

- All studies confirm that changes in industrial structure contributed to the increase in inequality.
- Changes in industrial structure only explain a small part of the increase in inequality since most of the changes occurred within industries.

For example, demand for college educated workers grew within all industries. So even if there had been no change in industrial structure there would still have been an increase in the demand for more educated workers. Similarly the decreasing demand for blue collar workers came primarily from changes within manufacturing industries. Most of the change came from each manufacturing industry decreasing demand for production workers, not from the decline in industries that used disproportionate numbers of manufacturing workers.

Foreign Competition

A second, and related, explanation focuses on the increased globalization of the U.S. economy. According to this explanation, increases in import competition and the increased tendency of firms to send part of their production overseas (outsourcing) forced less-skilled U.S. workers to compete with less-expensive foreign workers. The result was that the wages in low-skilled jobs were bid down. Shifts in demand associated with international trade played a relatively small role in

decreasing demand for production workers within manufacturing industries.

- Less than 9 percent of the shift away from production workers in manufacturing can be accounted for by the shift in output associated with international trade.
- Outsourcing of domestic production also had only a small impact on employment of production workers.

The vast majority of the shift away from production workers is associated with changes within industries that produce domestic consumption goods.

Changes in Technology

Technological change raises the productivity of some workers but may reduce the demand for less skilled workers. For example, the widespread introduction of computers during the 1970's, and the computer applications explosion during the 1980's, allowed firms to substitute capital and skilled labor for less-skilled labor. Firms increased their demand for persons who were computer literate and cut back on persons who had previously done the tasks which could now be done more efficiently with the new technologies.

- There is now wide agreement that changes in technology are the single most important cause of the increase in inequality.

New techniques increased the productivity of highly educated workers sufficiently that firms actually hired more of these workers during a period when their price to the firm was rising.

This general observation is reinforced by many specific studies. For example, Kueger (1992) finds that persons who used computers had substantially higher wages than people with the same observed characteristics (for example, race, gender, and age) in the same industries.

The importance of technological change as the major factor affecting earnings inequality means that forces quite outside the control of either firms or policy makers were at work during the 1970's and 1980's. The underlying cause of the rising earnings inequality was not the result of either evil owners or thoughtless bureaucrats. While both could be blamed for not easing the burdens of workers harmed by technological change, neither should be accused of causing the problem.

In summary, the first two sections of this testimony have documented three points:

- Poverty rates are much higher today than they were two decades ago in 1973.
- This rise in poverty is partially attributable to increased in female headship, but an even more important factor is the increase in inequality of earnings.
- This increase in inequality is largely driven by changes in technology.

III. Reflections and Speculations about the Future

I find it distressing that poverty rates are a third higher in 1992 than they were in 1973. Not only have we made no progress against poverty, we have actually lost ground over the last two decades. Does the future look any brighter? While I always hope that I will be pleasantly surprised by next year's poverty numbers, I am painfully pessimistic.

Let me close with one final graph which illustrates the reason for my pessimism. Figure 3 displays the data I showed you earlier but in a slightly different way, which dramatically shows the ratcheting up of poverty rates.²

During the 1960's and 1970's median incomes tended to increase, though somewhat erratically. As a result poverty rates moved along a fairly stable relationship, declining from 14 percent to 11 percent. However, the pattern changed dramatically between 1979 and 1983. Incomes fell and poverty rates increased along a new trajectory, taking us to levels of poverty not seen since the mid-1960's. While the ensuing six year expansion did manage to raise mean incomes to historical highs in 1989, poverty rates became stuck at new higher levels. It was as if the early 1980's recession had ratcheted us up onto a new plateau of poverty from which we could not descend.

I am pessimistic about the future because I see no simple way that the private economy will get us off of this plateau. The technological changes we have witnessed are not about to be reversed. Barring a dramatic reversal in technology, we will need a tremendous amount of growth just to reach the lows set in 1973.

Suppose we stay on the trajectory that seems to be currently in operation in Figure 3. How much growth would we need to get poverty rates back to their 1973 levels? Simply extrapolating along this trajectory indicates that mean family income would have to grow by over seven percent to attain a poverty rate of 11.1.

While this calculation is very crude it indicates that without dramatic change in the underlying demographic and economic factors poverty rates will remain well above the levels achieved in 1973. Such a rise in poverty would have been inconceivable from the perspective of the early 1970's. Little did any of us imagine in 1973 that poverty rates would actually be higher two decades later, much less 30 percent higher.

We are not doomed to this fate. Intelligent public policy can, and should, counter these adverse effects. Since demographic changes are slow and hard to change with public policies, I see the only hope coming from policies that try to counter the effects of growing inequality on low wage workers.

The next panel in this Hearing will deal with these public policy issues but let me close with one final observation. Low skilled workers who, through no fault of their own, came onto the labor market in the 1990's rather than in the 1970's found much lower demand for their services. Their wage rates were lower and the prospects for employment were not nearly as favorable as their counterparts who were fortunate enough to enter the labor market two decades earlier. As a result of their lower wages, many families fell into poverty. This rise in poverty was not a result of moral failure but a result of being born in the wrong decade. We, as a society, have an obligation to protect the vulnerable from such misfortunes.

²Figure 1 plots poverty rates against year, while Figure 3 plots poverty against median income.

Figure 1

Median Income, 1967-1992



Poverty Rate, 1967-1992

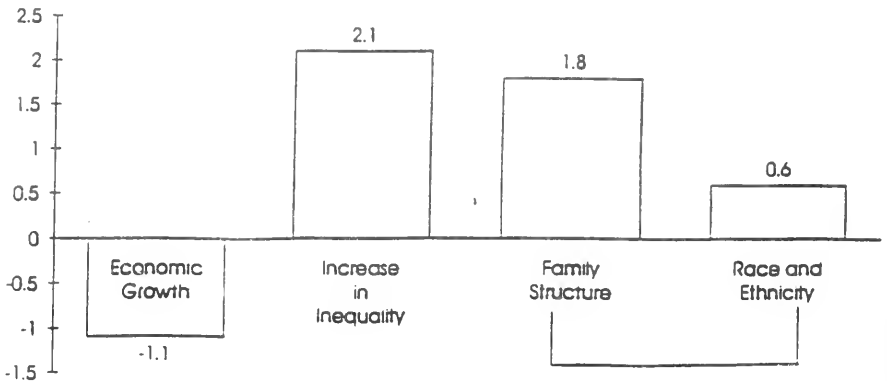


Figure 2

Poverty Rate, 1967-1992



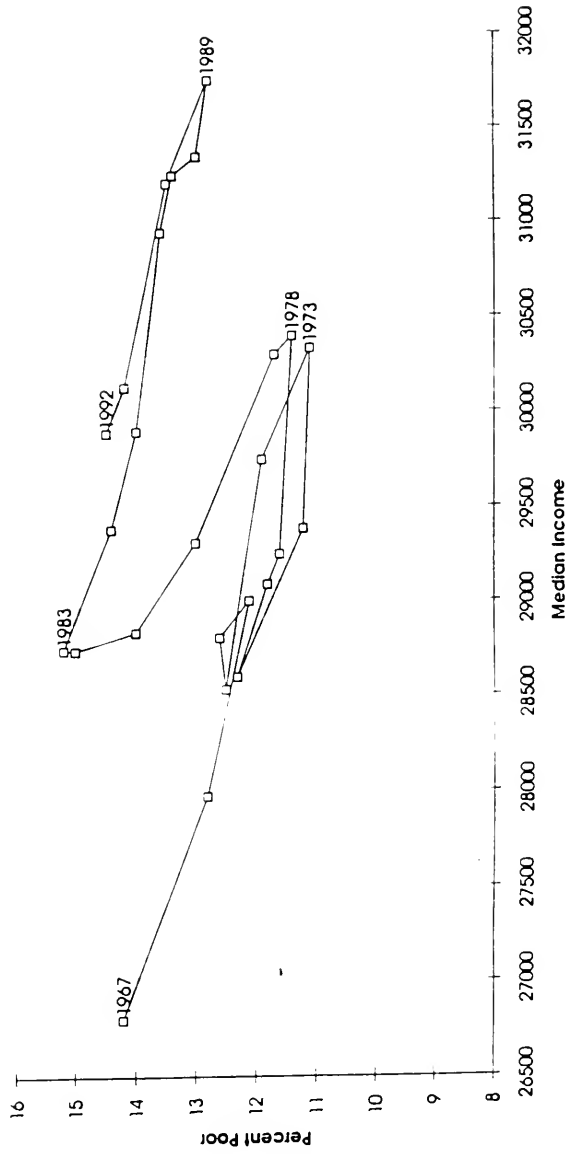
Decomposing Changes in Poverty, 1973 to 1992



Changing Demographics

Figure 3

Poverty Rate and Median Income, 1967-1992



Chairman FORD. Mr. Hill.

STATEMENT OF ROBERT B. HILL, PH.D., DIRECTOR, INSTITUTE FOR URBAN RESEARCH, MORGAN STATE UNIVERSITY, BALTIMORE, MD.

Mr. HILL. I would like to thank you and the members of this committee for inviting me to testify on this important topic. I also would like to commend the committee for seeking a historical perspective to this crisis since year-to-year changes are insufficient for providing an adequate understanding of the causes of persistent poverty.

My testimony will address three questions: One, what are the major societal forces responsible for the current economic crisis in the United States, with special emphasis on the black communities?

What governmental policies have contributed to this increase in economic deprivation; and three, what policies would I recommend to enhance the well-being of minorities and low income families. Today the prevalence of poverty among all racial groups is at or near record levels and is often higher than the extent of poverty during the mid-1960s.

I believe that the 1960s are an appropriate starting point to place the contemporary economic status of Americans in perspective. We have become so used to rising levels of economic hardship that many of us have forgotten that the last time this Nation experienced deep and continuous declines in unemployment and poverty was during the Johnson administration.

For example among black workers the number of unemployed blacks between 1963 and 1969 declined to 570,000, which is one of their lowest levels of unemployment and the poverty rate for blacks declined from 1 out of 2 to only 1 out of 3 by 1969.

What factors are responsible for bringing this strong period of economic recovery during the 1960s to an end? Two societal forces played major roles: back-to-back recessions and record level inflation. Between 1970 and 1990, this Nation experienced five recessions, 1970-71, 1974-75, 1980, 1981-82, and 1990, 1991, 1 every 4 years.

Before American workers were able to recover from one slump, they were hit by another. Because this was the first time that soaring unemployment and inflation occurred simultaneously, economists had to coin a new term, stagflation, to describe this unique phenomenon.

I might also say that these back-to-back recessions were bipartisan in that they occurred under both Republicans and Democrats. In sum, poverty increased by 1.4 million due to the 1970-71 recession, by 3 million due to the 1974-75 recession, 3 million due to the 1980 recession, 5 million due to the 1981-82 recession, and 5 million due to the 1990-91 recession.

These back-to-back recessions and record level inflations had disparate effects that destabilized the functioning of minority families. For example, while the unemployment rates among black workers rose from 10 to 20 percent between 1971 and 1983, the proportion of black families headed by women rose also from 31 percent to 42

percent. Thus each percentage point rise in black unemployment was related to a comparable increase in single-parent households.

Clearly economic instability led to family instability. Moreover Harvey Brenner of Johns Hopkins University and other scholars have continued to reveal that economic declines are directly correlated with higher rates of divorces, family violence, child abuse, mental illness, and physical disabilities. Clearly, economic forces and policies have major social consequences.

The major reason that these back-to-back recessions had such devastating effects was because they were accompanied by government policies that were insensitive to many minorities and low-income people. Although the strong economic recovery of the 1960s was responsible for the deep economic declines in unemployment and poverty, these gains took place in a favorable political climate in which the Johnson administration's War on Poverty programs were targeted to assist the working and nonworking poor.

However, when the Nixon administration took office in 1969, it dismantled many of the targeted, categorical War on Poverty programs before they had a chance to be fully implemented. Moreover, Nixon instituted his "New Federalism" block grants that shifted control of major Federal programs to the States.

Consequently, the MDTA was transformed into CETA. Model Cities was absorbed into the Community Development Block Grants, and various health programs were merged into the title 20 block grants. However, evaluations of these block grant programs by the National Academy of Sciences reveal that minorities and the poor benefited much less from the untargeted decentralized block grants than they did from the centralized categorical programs of the Johnson administration.

Another antipoor Governmental policy that continues to contribute to the current crisis was the passage of OBRA in 1981 as part of the Reagan administration economic recovery plan. This legislation was designed to reduce welfare expenditures by removing the working poor from the rolls and by reducing AFDC benefits and work incentives.

A former HUD Assistant Secretary reported that 408,000 families lost AFDC eligibility and almost 300,000 lost benefits. An evaluation of OBRA by GAO revealed that those who lost eligibility were more likely to be minorities, young, to lose income, to be below the poverty level and also not to have health coverage. Clearly the OBRA cuts still play a major role in the increasing rates of poverty among low income workers.

I would like to present a few examples of sensitive propoor governmental policies that have enhanced the economic well-being of minorities. During the 1970s, many studies found that the working poor were paying higher effective tax rates than many wealthy individuals and corporations. In order to reduce the disparate burden of the Social Security payroll tax on the working poor, Congress enacted in 1975 the earned income tax credit (EITC), which was made refundable for workers whose incomes were too low to pay any income tax.

As originally enacted, the EITC equaled 10 percent of the first \$4,000 of earned income for a maximum credit of \$400. Between 1979 and 1990, both the maximum credit and the phasing out

threshold had been raised. Moreover the EITC was indexed to keep abreast of inflation and evaluations of the impact of this credit reveal that it has increased the economic well-being of hundreds of working poor families with children.

Another propoor Government policy was the Family Support Act enacted in 1988. This act was historic in that it reflected a consensus among both liberals and conservatives that an effective approach to help families to get off welfare must require mutual obligations on the part of clients as well as the government. A JOBS program was created that involved a unique partnership between welfare agencies and employment and training divisions at the State level.

Moreover, there was mandated participation in the JOBS program for AFDC mothers whose children were at least 3 years old on the condition that States agreed to provide day care while the mothers were in training. It provided transitional child care and Medicaid assistance for at least a year after those who left because of obtaining employment. It also expanded and mandated the AFDC Unemployed Parent Program to all States.

Unfortunately, the Family Support Act began operations on April first 1990, almost simultaneously with the onset of the 1990-91 recession. Thus, many States have been unable to provide sufficient levels of matching funds to fully implement this innovative program as originally designed. I recommend that sensitive legislation, such as the earned income tax credit and the Family Support Act needs to be strengthened to enhance their effectiveness during this period of economic adversity.

Other approaches should include targeting creative community and economic development initiatives to low income communities. Obviously, the overriding priority should be to employ policies that can achieve sustained economic growth to create enough jobs that permit all persons willing and able to work to have earnings that provide for the well-being of their families. Thank you.

[The prepared statement follows:]

STATEMENT OF ROBERT B. HILL, DIRECTOR,
INSTITUTE FOR URBAN RESEARCH,
MORGAN STATE UNIVERSITY

I would like to thank you, Mr. Chairman, for inviting me to testify on this important topic. My name is Robert B. Hill and I am currently the Director of the Institute for Urban Research at Morgan State University in Baltimore, Maryland. Prior to coming to Morgan State, I served as the Director of Research for the National Urban League for almost a decade. It was in that capacity that I began to conduct numerous research studies on the impact of unemployment and poverty on the well-being of families, especially among minorities and low-income groups.

I commend this subcommittee for seeking an historical perspective to the current economic crisis, since year-to-year changes are insufficient for providing an adequate understanding of the causes of persistent poverty today.

My testimony will briefly address the following questions:

1. What are the major societal forces responsible for the current economic crisis in the United States, with special emphasis on the black community?
2. What governmental policies have contributed to these increases in economic deprivation?
3. What policies would I recommend to enhance the economic well-being of minorities and low-income families?

Today, the prevalence of poverty among all racial groups is at or near record levels, and is often higher than the extent of poverty during the mid-1960's. For example, the last time that the number of poor persons exceeded the 1992 level of 36.9 million was 30 years ago in 1962 (38.6 million). Similarly, the total number of poor blacks in 1992 was at its highest level, since the government began collecting poverty statistics by race in 1959.

I believe that the 1960's are an appropriate starting point to place the contemporary economic status of Americans in perspective. We have become so used to rising levels of economic hardship that many of us have forgotten that the last time that this nation experienced steep and continuous declines in unemployment and poverty was during the Johnson Administration.

For example, while the unemployment rates among black workers fell from 10.8% to 6.4% between 1963 and 1969, the number of unemployed blacks dropped from 864,000 to 570,000--one of its lowest levels. Over the same period, the number of poor blacks plummeted from 11.1 million to 7.1 million, while the proportion of blacks in poverty fell from 51% to 32%. Similar sharp declines in joblessness and poverty occurred among white workers as well.

I. Recessions and Inflation

What factors were responsible for bringing this strong period of economic recovery during the 1960's to an end? Two societal forces played major roles: back-to-back recessions and record-level inflation. Between 1970 and 1990, this nation experienced five recessions (1970-71, 1974-75, 1980, and 1990-91), or one every four years. Before American workers were able to recover from one slump, they were hit by another one. Since this was the first time that soaring unemployment and inflation occurred simultaneously, economists had to coin a new term "stagflation," to describe this unique phenomenon.

In order to curb rising rates of inflation, the Nixon Administration's fiscal policies contributed to the recession of 1970-71. Between 1969 and 1971, while the number of unemployed persons rose by 2.2 million persons, the number of persons in poverty increased by 1.4 million (from 24.1 to 25.6 million).

The Arab oil embargo of 1973, however, led to a spurt in oil prices as well as overall price inflation. Thus, the second slump of 1974-75 was induced by the Ford Administration's fiscal policies which were designed to stem the growth of inflation. This recession had even more devastating effects on American workers and their families. While the number of unemployed persons increased by 3.5 million persons (from 4.3 to 7.8 million) between 1973 to 1975, the number of persons in poverty jumped by 2.9 million (from 23.0 to 25.9 million).

Yet, these policies still failed to stem spiraling inflation. While the cost of living rose at an annual rate of only 2.3% during the 1960's, inflation soared at an 7.1% annual rate during the 1970's. Although the Carter Administration promised not to employ anti-inflation policies by stimulating greater unemployment, the Federal Reserve Board policies helped to induce the 1980 recession. Although this slump lasted only one year, it had severe effects on American workers. While the number of unemployed persons increased by 1.4 million (from 6.0 to 7.4 million) between 1979 and 1980, the number of persons in poverty jumped by 3.2 million persons (from 26.1 to 29.3 million).

By the time the Reagan Administration took office in 1981, the nation appeared to be recovering from the 1980 slump. Real GNP grew at an impressive 8.4% annual rate during the first quarter of 1981. And, inflation, which had eased from 13.3% in 1979 to 12.4% in 1980, dropped even further to an 8.4% annual rate by January 1981. But President Reagan was convinced that a bold new approach was needed to achieve sustained, non-inflationary economic growth throughout the 1980's. Thus, he unveiled his Economic Recovery Plan on February 18, 1981.

However, President Reagan's supply-side policies contributed to the devastation wrought by the recession of 1981-82. While the number of unemployed persons rose by 3.1 million (from 7.6 to 10.7 million) between 1980 and 1982, the number of persons in poverty increased by 5.1 million (from 29.3 to 34.4 million).

Although inflation was only increasing at an annual rate of 4% during the Bush Administration, the fifth recession began in 1990. While the number of unemployed persons rose by 2.9 million (from 6.5 to 9.4 million) between 1989 and 1992, the number of persons in poverty rose by 5.2 million (from 31.7 to 36.9 million).

In sum, unemployment increased by 2.2 million due to the 1970-71 recession, by 3.5 million due to the 1974-75 recession, by 1.5 million due to the 1980 recession, by 3.0 million due to the 1981-82 recession, and by 2.9 million due to the 1990-91 recession.

And, poverty increased by 1.4 million due to the 1970-71 recession, by 2.9 million due to the 1974-75 recession, by 3.2 million due to the 1980 recession, by 5.1 million due to the 1981-82 recession, and by 5.2 million due to the 1990-91 recession.

These back-to-back recessions and record-level inflation had disparate adverse effects that destabilized the functioning of minority families. For example, while the unemployment rates among black workers rose from 10% to 20% between 1971 and 1983, the proportion of black families headed by women increased from 31% to 42%. Thus, each rise in black unemployment was related to a comparable increase in single-parent families.

Clearly, economic instability led to family instability. Moreover, studies by Dr. Harvey Brenner of Johns Hopkins University and other scholars have continued to reveal that economic declines are directly correlated with higher rates of divorces, family dissolution, family violence, child abuse, mental illness and physical disabilities. Thus, economic forces and policies can have major social consequences.

II. Anti-Poor Government Policies

The major reason that these back-to-back recessions and inflation had such devastating consequences for American workers and their families was because they were accompanied by government policies that were insensitive to minorities and low-income workers.

Although the strong economic recovery of the 1960's was primarily responsible for the deep declines in unemployment and poverty, these gains took place in a favorable political climate in which the Johnson Administration's "War on Poverty" programs were targeted to assist the working and non-working poor, especially those who lived in America's urban and rural poverty areas.

However, when the Nixon Administration took office in 1969, it dismantled many of the targeted, categorical "War on Poverty" programs before they had a chance to be fully implemented. Moreover, President Nixon instituted his "New Federalism" block grant programs that shifted control of major federal programs to the states. Consequently, the Manpower Development and Training Act (MDTA) program of the 60's was transformed into the Comprehensive and Employment Training Act (CETA). The Model Cities program was absorbed into the Community Development Block Grant (CDBG). And, various health programs were merged together in the Title XX block grant for social services. Yet, evaluations of these block grant programs by the National Academy of Science revealed that minorities and the poor benefitted much less from the untargeted, decentralized block grants than they did from the centralized, categorical programs of the Johnson Administration.

Another anti-poor governmental policy that continues to contribute to the current economic crisis was passage of the Omnibus Budget Reconciliation Act (OBRA) in 1981 as part of the Reagan's Administration Economic Recovery Plan. This legislation was designed to reduce welfare expenditures by removing the working poor from the rolls, and by reducing AFDC benefits and work incentives for families that remained on the rolls. A former HHS Assistant Secretary reported that 408,000 families lost AFDC eligibility and 299,000 lost benefits as a result of OBRA changes.

An evaluation of the impact of the OBRA cuts by the General Accounting Office (GAO) revealed that AFDC recipients who lost eligibility due to OBRA were more likely: (a) to be minorities, younger than those who remained, and to have worked between 2-3 years; (b) to have suffered substantial loss of income that could not be made up by earnings; (c) to have family incomes that fell below the poverty level; and (d) not to have health coverage for their families. Thus, the OBRA cuts still play a major role in the increasing rates of poverty among many low-income workers.

III. Sensitive Governmental Policies

I will now present examples of sensitive, "pro-poor" governmental policies that have enhanced the economic well-being of minorities and low-income families. During the 1970's, many studies found that the working poor were paying higher effective tax rates than many wealthy individuals and large corporations. In order to reduce markedly the disparate burden of the social security payroll tax on the working poor with dependent children, Congress enacted in 1975 the Earned Income Tax Credit (EITC), which was made refundable for workers whose incomes were too low to pay any income taxes.

As originally enacted, the EITC credit equalled ten percent of the first \$4,000 of earned income for a maximum credit of \$400, which was completely phased out for workers whose adjusted gross income (AGI) were \$8,000. Between 1979 and 1990, the maximum credit and the AGI "phasing out" threshold were raised. As a result of the Omnibus Budget Reconciliation Act of 1990, the maximum EITC credit was raised to \$1,651 by 1994; the minimum income to qualify for the credit was raised to \$6,930; and the AGI threshold for complete phaseout of the credit was raised to \$20,620. Moreover, the EITC was indexed to keep abreast of inflation. Evaluations of the impact of EITC reveal that this credit has increased markedly the economic well-being of hundreds of working poor families with children.

Another "pro-poor" government policy was the Family Support Act, which was enacted in 1988. This act was historic in that it reflected a consensus among both liberals and conservatives that an effective approach to help families to get off welfare must require mutual obligations on the part of the clients as well as government agencies. A JOBS program was created that involved a unique partnership between welfare agencies and the employment and training divisions at the state level.

This act mandated participation in the JOBS program for AFDC mothers whose children were at least three years old--on the condition that states agree to provide day care while the mothers were in training. It also agreed to provide transitional child care and Medicaid assistance for a 12-month period to clients who leave the AFDC rolls as a result of obtaining employment. Moreover, in order to enhance the stability of poor, two-parent families, this act mandated that all states participate in the AFDC-Unemployed Parent (AFDC-UP) program. However, the newly-participating states were permitted to place a minimum six-month time limit on the length of time that clients may remain on the AFDC-UP rolls.

Unfortunately, the Family Support Act began operations on April 1, 1990--almost simultaneously with the onset of the 1990-1991 recession. Thus, many states have been unable to provide sufficient levels of matching funds to fully implement this innovative program as it was originally designed.

I recommend that sensitive legislation, such as the Earned Income Tax Credit and the Family Support Act, needs to be strengthened to enhance its effectiveness during this period of economic adversity. Other approaches should include targeting creative community and economic development initiatives to low-income communities in both urban and rural areas. Obviously, the overriding priority should be to employ policies that can achieve sustained economic growth to create enough jobs that permit all persons willing and able to work to be able to have earnings that provide for the well-being of their families.

**STATEMENT OF MARVIN H. KOSTERS, PH.D., DIRECTOR,
ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE**

Mr. KOSTERS. I appreciate this opportunity to comment on the poverty and income data. The first point I would make with regard to assessing the data for 1992 is that we need to take into account the recession. We need to recognize that the unemployment rate actually peaked in 1992, the year for which we have the most recent data. But it must also be recognized, and this is my second point, that poverty rates have continued to remain relatively high, and income growth has been slow for the last couple of decades.

The most important factor influencing these trends, I think, is the slow growth in productivity. But there are other factors as well like the growth of immigration of people with low skills and little schooling, and the changes in relative wages that Lynn Karoly mentioned.

The two that I would like to comment on have to do with the changing composition of workers' pay, how their total compensation is divided between wages and other employment costs and nonwage benefits, and the changing characteristics of family units.

Since the early 1970s we seem to have seen a somewhat different trend in total compensation than in wages alone. I might refer you to figure 1.

It bases the real pay indexes in 1973. It shows that after moving more or less together for the 2 decades before 1973, total compensation per hour continues to go up, total production per person goes up more, but average hourly earnings go down. These data cover slightly different populations, somewhat less skilled workers for the wages measure, et cetera. Nevertheless, they illustrate what is evident in other data, an increasing share of total compensation is being devoted to nonwage benefits. These benefits include health plans with rapidly increasing costs, more devoted to pensions, more in the form of employer mandates, higher payroll taxes, and the like.

It has been generally recognized that nonwage benefits have increased at the expense of money wages, and the Census Bureau, as noted in earlier testimony, has tried to make some adjustments to take this into account. These adjustments, of course, lead to a lower poverty rate than without those adjustments.

The Clinton administration, when it developed its tax incidence tables last spring, expanded its family income concept to take into account a variety of things in addition to the normal census income figures. So I think it is generally recognized that nonwage benefits, benefits associated with employment, have become increasingly important.

Now, with regard to policy implications, it seems to me that the fact that increased benefits, and requirements on business firms to provide them that come at the expense of money income in cash wages, need to be taken into account when policies that impose employer mandates are considered in the Congress. In addition, it seems to me that it may be useful to go beyond our traditional income concepts in assessing poverty, and family income.

We ought to take into account in-kind benefits. We ought to possibly consider making more use of the consumer expenditure sur-

vey to see what goods and services people actually have access to. After all, it is clear that GDP per capita, production per person, has gone up significantly, less rapidly than in the 1950s and 1960s to be sure. But its continued growth is only partially reflected in numbers like, for example, median family income. Part of the reason for that is changes in the characteristics of families.

Figure 2 represents information on those changes. The chart looks complicated, but the point that I want to make on the basis of this chart is really a fairly simple. The figure reports poverty rates for families with children; there has been a great deal of focus on children who have extraordinarily high poverty rates.

You can see that poverty rates for blacks and for Hispanics are a great deal higher than for whites. If you look, on the other hand, at demographic subcategories, you find poverty rates more closely comparable. If you look at situations where the husband worked year-round and full time, certainly between whites and blacks, the poverty rates are in a similar range, although they are somewhat higher for Hispanics.

If you look at the subcategory with the highest poverty rates, female-headed families with no workers in the family, rates were in the 90 percent range for each of those demographic groups. The shaded areas of the circles show the fractions that are in particular demographic subcategories and the differences among racial and ethnic groups.

My point is not so much to compare racial and ethnic groups as to point out that many of the changes in family structure that have occurred over the past 20 years—since 1970, for example—have tended to raise poverty rates and to raise them quite significantly. So it seems to me that if we are to get any substantial real progress toward lower poverty rates, toward higher growth in median income, it may be necessary to ask how we can stabilize or to some extent reverse those changes in family structures that have occurred.

With regard to policy, it may be difficult to see how Federal policy could be oriented in a positive way to improve family stability and to encourage family formation. But there are Federal Government policies that we have seen that have contributed perhaps to discouraging family formation. I think, for example, of the huge marital status penalty in the recently expanded earned income tax credit. It seems to me that in making policy it is important to keep in mind what the implications of tax and transfer policies are for household formation and for family structure.

Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

Statement of Marvin H. Koters
 Director, Economic Policy Studies
 American Enterprise Institute
 before the
 Subcommittee on Human Resources,
 Committee on Ways and Means
 U.S. House of Representatives
 October 26, 1993

Major Factors Influencing Long-term Family Income
 and Poverty Trends

Mr. Chairman and Members of the Subcommittee: I appreciate this opportunity to discuss some of the major factors influencing long-term trends in family income and poverty. It is useful to consider such trends when new information becomes available.

In interpreting the most recent national data on real income levels and poverty status of families for the year 1992, it is important to begin by recognizing the continuing influence of the recession that began in 1990. Median family income declined slightly and the poverty rate rose slightly in 1992, at a time when the unemployment rate peaked. The influence of unemployment on these figures seems to be confirmed by the fact that for families in which the head worked full-time throughout the year, family income increased slightly and the poverty rate declined slightly from the preceding year. It is, consequently, essential to take the recession into account in evaluating long-term trends.

It is also necessary to recognize that real median family income is now very little higher than it was 20 years earlier. Although the slump in incomes during the last three years is largely associated with the recession, real family income growth was quite modest even during that part of the 1980s when most of the growth took place. Similarly, poverty rates since the late 1970s have remained above the levels to which they had declined by the late 1960s. These trends are, of course, the result of many economic and social developments, including the changing characteristics of the units that are measured and the changing composition of pay that workers receive. I will confine my comments to factors in these two categories even though many other factors were also at work, such as changes in choices about whether to work and how much, the increase in the proportion of immigrants with low schooling, and changes in relative wage patterns that have led to wider wage gaps among skill levels and narrower gaps between wages of women and men. Most important of all, of course, has been the slowdown in productivity growth since the 1950s and 1960s.

The wage component of pay

For most families with members of working age, most of their income consists of wages and salaries. To gain insight into long-term trends in income, it is useful to look at what has happened to wages over a period of years. Just as current money income is only a partial and incomplete measure of the resources available to the family, the wage paid in cash is only one component of the typical worker's pay. Wages account for the major share of total compensation, but non-wage payments have become increasingly important. As shown in Figure 1, total compensation per hour of work has increased more rapidly over the years than wages. Since the early 1970's, however, the divergence between wage and compensation trends has become much more pronounced. Average hourly compensation, after taking inflation into account, is about 15 percent above its level 20 years earlier. Average hourly earnings levels in contrast have actually declined. Average weekly earnings, which reflect in addition a gradual reduction in hours of work, declined by about 20 percent in the same period. Wage payments represented by this latter figure are mainly reflected in conventional measures of household and family income.

The proportion of the population at work has continued to increase in recent years, and this accounts in part for the larger increase in domestic production per person (GDP per capita). The data on compensation per hour also represent a broader share of the workforce than for wages; the data on average hourly earnings cover only production and nonsupervisory workers. Although these differences in coverage contribute to the divergence in trends, it seems clear that

nonwage benefits have recently accounted for a growing share of total pay and these nonwage benefits increase costs to employers in the same way as higher wages.

Some components of nonwage benefits are payroll taxes, such as those that finance social security payments for the retired and medicare. Others, such as the cost of health plans and private pensions, are based on private employment arrangements that reflect the tax treatment of compensation in these forms. Still others are the result of employer mandates, such as family leave requirements. Many employees may place a high value on nonwage benefits of various kinds, but it should be recognized that policies that require employers to provide particular benefits or impose taxes to finance them drive a growing wedge between total compensation costs and wage payments that are reflected in family income and poverty data.

The increased importance of benefits that are financed by payroll taxes or required as a condition of employment also illustrates some of the shortcomings of traditional income and poverty measures. In recognition of the fact that the value of many nonwage benefits and in-kind transfers are not captured in traditional measures, efforts have been made in recent years to make adjustments in the poverty data to take them partially into account. The method used by the Bureau of Census to take taxes and benefits into account reduces the poverty rate in 1992 from 14.5 to 9.2 percent. In its tax proposals last Spring, the Clinton Administration expanded income for its income distribution tables to take into account estimates of the value of employer provided nonwage benefits, the net rental value of owner occupied housing, and several other items such as inside build-up of pensions and unrealized capital gains.

These efforts reflect a recognition that our traditional income and poverty measures reflect in only a partial and incomplete way the living standards that households and families have attained. They indicate the need for development of measures that are conceptually better suited to assessing the living standards of households and families. They suggest that it might be useful to supplement income-based measures of well-being with data from sources such as the Survey of Consumer Expenditures to obtain more useful information on the goods and services available to families in various demographic categories with different living arrangements.

Composition of family units with children

Because the size and composition of families and households has changed over the years, the level of real income they have attained has increased much less than domestic production per capita or output per worker. To illustrate the importance for poverty measures of differences in family types and work patterns, I have assembled information on how poverty by race and ethnicity are affected. Because the rising incidence of poverty among children has appropriately attracted a great deal of attention, the data I present in Figure 2 cover only families with children.

Although a lot of information is presented in the Figure, the basic point that I wish to make is quite simple. The point is that big differences in poverty rates by race and ethnicity are in large part the consequence of major differences in family types and work experience. Poverty rates are much more similar across race and ethnic groups when similar family types with similar work experience are compared. Although poverty rates are very different across the groups that are compared, and proportions of families in each sub-category are very different, all racial and ethnic groups have experienced trends in directions that tend to result in higher poverty rates.

To illustrate relationships between poverty rates and family types and work experience, note that the poverty rate for black families with children is almost three times the level as for whites (39.0 vs 13.7). A much larger proportion of white families with children consists of married-couple families than for black families (about 78% vs 41%, shown by the shaded portions of the circles) with the result that for such families the difference in poverty rates is reduced to about 2 to 1 (15.4 vs 7.6). Similar comparisons can be made between other groups. Consider, for example, the groups with the largest differences in poverty rates: married-couple families with both spouses working full-time throughout the year compared with female-headed families with no workers. Poverty rates for the former family type range from about 1 to 3 percent; for the latter they range between about 88 to 94 percent. Proportions of families in each

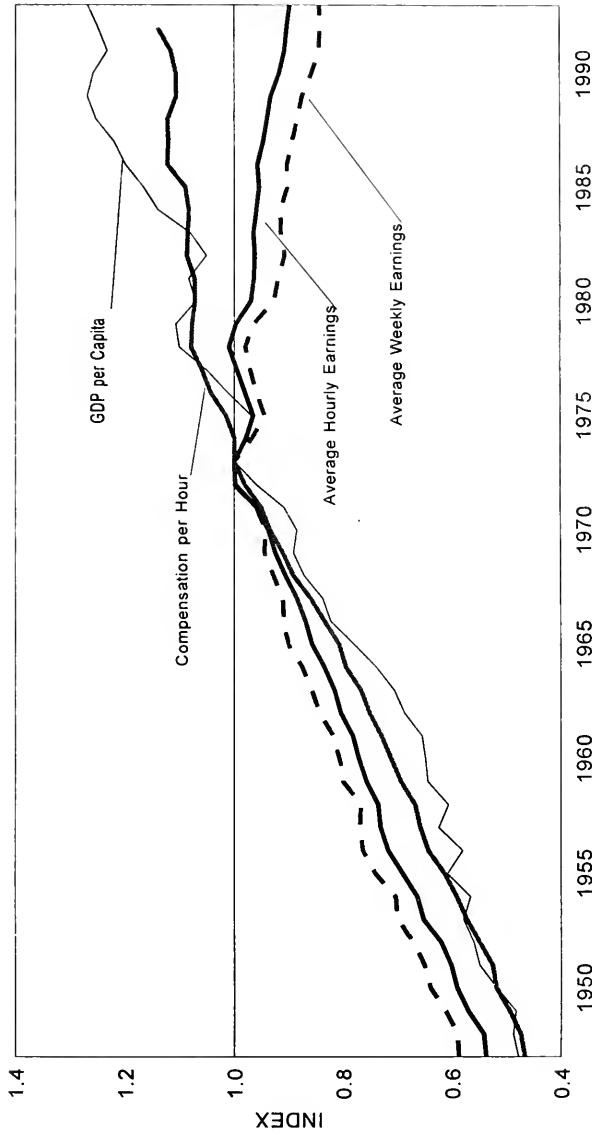
sub-category are quite different among groups, however, and these differences have very strong effects on poverty rates for broader categories of family types.

These differences in poverty rates in relation to family types and work experience illustrate one of the reasons why poverty has been so persistent and why the incidence of poverty among children has risen since the early 1970s. The proportion of married-couple families in which children are growing up declined from 1970 to 1990 by 10.5 percentage points to 79 percent for white families and by 20.8 percentage points to about 38 percent for black families. Because the proportion of wives at work in these families increased from about 40 percent to 66 percent, their incomes rose more than if only one adult member had been at work. The proportion of single-parent families increased from 11.9 percent to 24.7 percent from 1970 to 1990, and although single-parent families are much more prevalent among black than white families, the proportion grew rapidly for both.

It seems clear from these data and a wealth of more detailed information that the increased prevalence of single-parent families in which at most only one member can work steadily is an important source of low family income, slow growth in family income, and growing poverty among children. Policies to ameliorate these conditions are likely to experience limited success unless they also contribute to a stabilization and reversal of these trends. Although it may be difficult to develop policies that have a favorable influence on family formation and stability, it may be worthwhile to reexamine provisions in federal tax law and income transfer programs that lead to sizable economic penalties for marriage for families with low and moderate incomes.

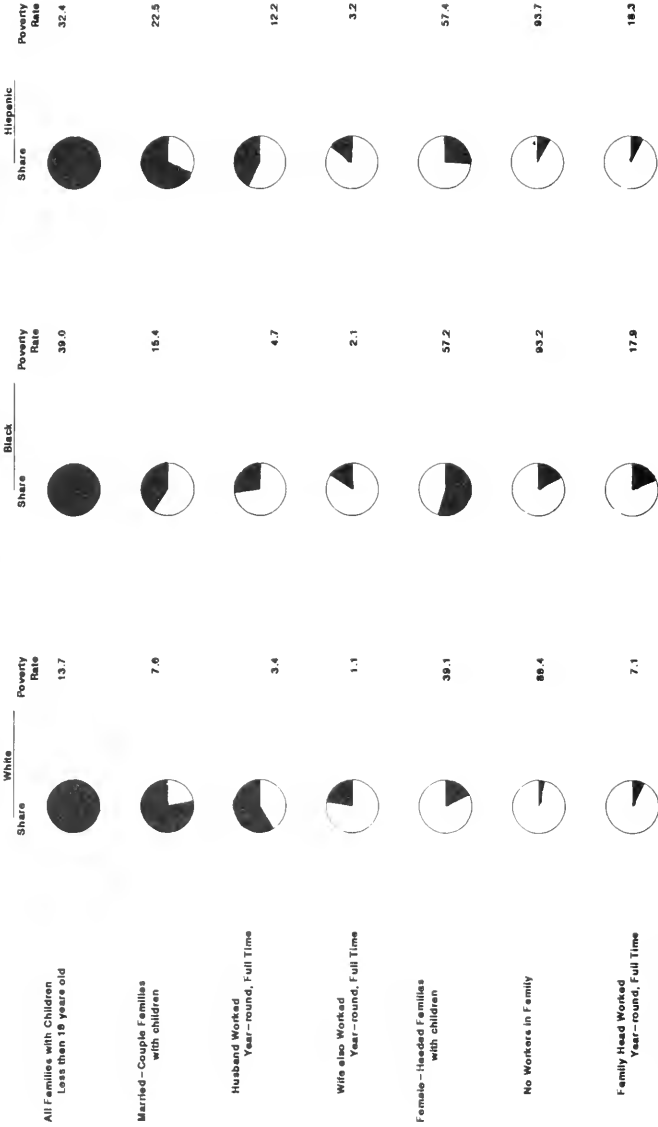
In summary, the trend in the composition of workers' pay toward more non-wage benefits at the expense of cash wages is one factor influencing long-term trends in family incomes and poverty. This trend suggests the need to consider development of more comprehensive measures of economic well-being and the importance of carefully weighing policies that require employers to provide particular benefits against the implications of such requirements for family incomes and poverty status. Trends toward family structures and working patterns that tend to increase the incidence of poverty, particularly among children, are undoubtedly the result of many social and economic influences. To counter these trends, or at least to avoid giving additional impetus to them, the potential effects on family structure of federal tax and transfer programs should be carefully evaluated.

Figure 1
TRENDS IN MEASURES OF REAL PAY: 1947-1993



Note: All measures are adjusted for inflation using CPI-U-X1. Figures for 1993 are mid-year averages.
Source: For Compensation per Hour, Average Weekly and Hourly Earnings, Bureau of Labor Statistics.
U.S. Department of Labor. For GDP per Capita, Department of Commerce and Bureau of Economic Analysis

Figure 2
CHILD POVERTY BY RACE, FAMILY TYPE, AND WORK PATTERNS
 1992



Sources: Bureau of the Census, P60-185, 1992
 M. Koster, AEL, October 1993

Chairman FORD. Thank you.

Mr. Santorum.

Mr. SANTORUM. Mr. Gottschalk, you mentioned some of the factors involved in these calculations on inequality. I think you hit on the most important one, which was the fact that when you explain in Figure 2 at the bottom about decomposing changes in poverty that the principal reason for the increase in inequality was the lack of skills. I guess that is a result of increasing global competition being one of the big things, that we have to be more competitive and as a result our level of skill requirement has increased and that is the reason inequality has increased among the work force.

Mr. GOTTSCHALK. There has been a fair amount of work done on that. It is not so much the skills that people have, but the prices paid for those skills. In other words, I have a college degree. The rewards for having a college degree are much, much higher today than when I was deciding whether to get a college degree. The kid who doesn't have the college degree is penalized.

Mr. SANTORUM. So the increase in competition has driven up the demand for higher skills and decreased the demand for lower skills?

Mr. GOTTSCHALK. That is correct. However, you find that even in industries that have no foreign competition inequality has continued to increase. That is the way the labor markets work. If a high school person is getting bid up in foreign competition, it would help, yes. I misunderstood, but agree with your question now.

Mr. SANTORUM. You are saying that is the principal reason. So some of the comments I heard that the increase in inequality during the 1980s as a result of Reagan-Bush policies is a little bit overstated, wouldn't you say?

Mr. GOTTSCHALK. I totally agree. I think there is too much partisan politics in the question of poverty. We are all—

Mr. SANTORUM. We are part of a larger picture.

Mr. GOTTSCHALK. I don't want to pin it on global factors alone. Suppose that the United States had no foreign competition and we still had the changes in technology. Those changes in technology are what is driving everything—so I agree—I think where policy can be faulted was where it didn't try to offset these global factors and that is where I think we can, in fact, do more.

Mr. SANTORUM. I would take issue with one comment you made, and that is that you said that people coming on to the job force in 1993 are worse off and it is not their fault that they are worse off. I would suggest that it probably is their fault that they are worse off because it is certainly evident that they will need skills. I go to a lot of schools and I talk to a lot of kids. Their teachers tell me they better be better prepared to be out there and be more competitive.

When you arrive on the scene as a 16-year-old dropout from high school it is partially your fault that you are not out in the marketplace being able to compete for good wage jobs. The victimization thing bothers me a little bit. It is a fact that people coming into the work force have some responsibility to be prepared to enter that work force.

Mr. GOTTSCHALK. I don't disagree. However, think of the kids at the bottom of your class, the kids who weren't very smart, without

great skills. You probably knew some who worked very hard and worked up to their potential. In 1973 working up to your potential meant that you got a higher wage than you get today. It is in that sense that the bottom has dropped out for these kids. Everyone should be trying to gain more skills and I suspect that will happen. But when your real pay gets cut by a factor of 30 percent, that is big, and that is not your fault.

Mr. SANTORUM. OK.

Chairman FORD. In your testimony, but not in your response to the ranking minority leader of this subcommittee, you said technological changes were the primary factor that caused this problem. Nowhere did you mention foreign competition in your opening statement.

Mr. GOTTSCHALK. I do not agree with the statement that foreign competition is the principal cause.

Chairman FORD. You didn't state that. You stated it was something—

Mr. GOTTSCHALK. It is technology. Foreign competition has some small impact. I think there is an estimate of something like 9 percent of the increase in inequality can be attributed to increases in foreign competition. So it is not so much foreign competition; it is the fact the wage rates have become less equal because all these countries have gotten new technology. Even if we had completely closed borders, we would have still have had an increase in inequality. I stand corrected.

Chairman FORD. One other thing. You also mentioned that from 1980 to 1992 tax breaks were enacted for the upper and middle income brackets of America, which created a wage problem for the lower wage employees of this country. Did the Reagan tax cuts in the early 1980s benefit most the wealthy and middle-income earners and skew the income distribution away from the poor and the working poor of this country?

Mr. GOTTSCHALK. Absolutely. I don't think I am contradicting anything that I said. My claim is that the underlying forces which are changing the wage distribution are things beyond our control. However, Government can and should offset that.

I agree that during the Bush-Reagan administration the taxes of the high-income people were cut. The earned income tax credit is probably one of the most important pieces of legislation for low-income people. I think the government can do things through tax policy and I think it is on the right track.

Chairman FORD. I have no doubt that we can do things to tax policy. If it is good enough for the rich, it is good enough for the poor. If we are going to do away with these poverty rates that we are talking about of children, we are going to have to focus more on the Tax Code.

The most recent budget bill, with the expansion of the earned income tax credit, will go a long way toward addressing some of the problems that we are faced with today.

Doctor Karoly, do you think the Family Support Act would be a good starting point for the Federal investment in human capital that you talked about in your testimony?

Ms. KAROLY. I think one of the key points, and this has been emphasized throughout this panel discussion, is that individuals in

families, individuals in the labor market have been affected by a number of factors, some beyond their control, that have tended to reward those individuals who come to the labor market with greater skills, whether that is measured by education, by experience, or other dimensions.

I think one of the key things is to reinforce the incentives that individuals have, that firms potentially have in investing in the skills of their workers. In part, the Family Support Act is moving in a direction in supporting lower income families and trying to improve their well-being, but I would say that one of the key components is the money incomes that families earn from the labor market, the private sector incomes that individuals have, are a key factor that is affecting the transition we see in income distribution and poverty.

To the extent that policies only address the Government side, the public sector incomes that individuals have, I don't think that will go far enough.

Chairman FORD. Let me pose this question. A major trend of the past couple of decades is that more women are moving into the work force. Would you suggest that might have had a great impact on the labor market?

Ms. KAROLY. I can start. There is evidence that among married couple families when women enter the labor market that tends to reduce the dispersion in incomes among families with husband and wives. So in fact women entering the labor market tends to be equalizing in terms of the incomes of married couple families. That is because women tend to enter the labor market in families where the man has lower income and therefore it has an equalizing effect.

At the same time, when we look at all families there is evidence that the fact that more women are working today in married couple families has a disequalizing effect. The net contribution I think is not fully sorted out. There is an indication that the fact that more women in married couple families are working, the fact that they are working tends to be correlated more positively than in the past with their husband's wages, is having a disequalizing effect compared to the past.

Chairman FORD. What about distribution of income? When you look at that market itself, how is it impacted?

Mr. GOTTSCHALK. There are really two ways of answering the question. Given the wage structure, who works? The other question, which is certainly related, is when women come on to the labor market, do they depress the wages of the least skilled. I think that the evidence on that is very weak.

We have seen increases in inequality among groups which certainly were not impacted in large ways by an inflow of women into the labor market. The changes that we have observed are too widespread to be explained by a depressing effect simply on entry level wages of women in the labor force. There is probably a small impact, but it is certainly not the smoking gun.

Chairman FORD. Mr. Hill, you mentioned that economic instability leads to family instability. Can you tell us more about the study by Dr. Brenner and others that correlates economic decline with negative family outcomes?

Mr. HILL. Actually I guess Dr. Brenner has been conducting these studies for several decades. I think he began in the late 1960s. He used creative strategies with the data—usually we don't link economic data with social indicators. He examined such factors as mental illness, family violence, and he correlated those indices with the economic cycles. He found a strong correlation between economic slumps and a high incidence of social dysfunctional aspects. Other scholars have supported his findings. In fact, I think Dr. Brenner has recently updated some of his analyses and continues to find a strong relationship between economic forces and social ills, such as family violence, child abuse, mental illness and family break up.

Chairman FORD. You have indicated that we are probably worse off today as it relates to the high incidence of poverty than we were back in the 1960s and early 1970s. The War on Poverty Program and the Comprehensive Employment and Training Act were two viable programs in this country then. The poverty rate was a lot less than what we are faced with today.

All of you scholars at this table, do you have any suggestions as to whether the Government should go beyond what we are talking about with a welfare reform package, replacing welfare with a CETA program, to redistribute some of the wealth of this country and focus it back where it is needed in order to reduce the incidence of poverty?

Mr. HILL. One of the things which we don't discuss too much, I think that the creation of the block grants by Mr. Nixon, in one way you had less targeting in that I think you get to the tendency whereby you have more—the low-income people get the lowest benefit—trickle down. I think that we have to, even with respect to CETA, CETA had measures to target it to the low income hard core.

I think we have to have policies that directly target, like the earned income tax credit, that target those low-income workers rather than just assuming there will be a trickle down phenomenon that very rarely reaches many of them.

Mr. GOTTSCHALK. I admit I have been thinking about public service employment. It is clearly not very popular among academics.

Chairman FORD. Why is it not popular among academics?

Mr. GOTTSCHALK. Because we know its problems so we will. It has been studied to death.

Chairman FORD. What are its problems?

Mr. GOTTSCHALK. It is very hard to create jobs without displacing other jobs. That is a fundamental problem. On the other hand, I am coming to the view that we may want to revisit some of those arguments. It seems to me that with the earned income tax credit you can say a kid coming on to the market or an older person with less skills can get by with the earned income tax credit and a minimum wage job.

What about those people who can't find a job. Those people do exist. It seems to me that at one point, as the jobs for less skilled people dry up in the private economy, if we are serious about wanting people to work, we are going to have to offer work. It is not a position I have taken yet, but it is certainly one I am considering

which I didn't consider 5 years ago, when I didn't see the deterioration in the bottom end of the market.

I still believe that preferable for the private sector to create the jobs. It seems to me we are going in the opposite direction. The private sector is providing fewer and fewer jobs for less skilled people.

Chairman FORD. One of the problems that we are faced with is violence. I read in the Washington Post this morning that we've had 380 homicides in the District of Columbia and there's other violence and crime committed here every day. My hometown is approaching 200 homicides in addition to other violence in the city. If you look at some of those who are committing these crimes, they are going to institutions for 10, 15 and 20 years. We are spending \$½ million to \$1 million.

I would like for Congress to revisit the issue of public service jobs. We don't seem to have a problem building jails and getting the courtrooms and prosecutors and everyone else on board. If Americans are in need of jobs, if we want to change the trends in poverty, if we want to address the issue of violence in America, it will take some of you from the academic community to revisit this area. Look back to the 1960s and 1970s, when we were talking about using jobs to reduce the unemployment rate and the incidence of poverty, in order to reduce the crime rate and encourage a stable community and families.

I surely would welcome that from scholars like the four of you at this table.

Mr. Santorum.

Mr. SANTORUM. Thank you, Mr. Chairman.

Mr. Kusters, do you want to comment about the CETA program and other public service kinds of programs? Mr. Chairman, if you are interested in working on public service programs we have a welfare reform measure that will be introduced in a couple of weeks that will have a work requirement for people receiving welfare.

One option would be public service kinds of jobs. We would welcome your support of that measure.

With respect to CETA, Mr. Kusters, do you have comments about the efficacy of CETA in addressing poverty?

Chairman FORD. Mr. Kusters, if you would yield, I welcome an opportunity to respond. When I spoke, I meant meaningful jobs in the workplace. That would be public service jobs, not what you would refer to as workfare jobs.

I welcome the opportunity to take a look at the Republican welfare reform package. As a matter of fact, I challenge you today. You set up the first public hearing within the next 2 weeks in Philadelphia and I will join you as chairman of this subcommittee. We will open the Republican package and look at the workfare component and let that be the centerpiece of the hearing in the City of Philadelphia. I am authorizing my staff to move forward. Let's go to Philadelphia within 30 days and unveil the Republican plan and let's talk about it.

Mr. SANTORUM. Deal.

Mr. KOSTERS. As I look at the historical record of poverty rates and income growth, it is very difficult for me to be optimistic about the beneficial effects of the War on Poverty and CETA or related

programs. It seems to me it was after the growth of those programs that we saw a stagnation of income growth, a tendency for poverty rates to rise rather than fall, et cetera.

The world is much more complicated than to say these are the major factor. Certainly they are not the only factor behind recent trends. It does raise questions about whether those policies are a very promising answer.

With regard to public service employment, I prefer to see us rely more heavily on private employment. The main reason is that if someone is employed in the private sector he produces sufficient output to pay his or her wage. On the other hand, for public service employment, we need to come up with tax revenues from some place to finance this person's employment. So it seems to me that is a major difference.

To suggest that the economy is not capable of providing lots of jobs in the private sector, it seems to me, is totally inconsistent with the record of most of the past 20 years or so. During the 1970s, and parts of the 1980s, there was very rapid employment growth. Some 2 million jobs a year were created during those years of high employment growth. So I don't think we should be discouraged about prospects for more private sector jobs.

Moreover, I would say that I disagree with some of the views that were expressed that the person entering the labor market is on average worse off now than 20 years ago. I don't know whose fault it is, but I don't think it is the case that the average worker is worse off. They may get lower wages, but total compensation of the average worker has gone up and many of those nonwage components seem to be very important to the people who bargain for them.

Mr. SANTORUM. That was one of my questions. Is there a good way to measure benefits and how they would affect the poverty rate. Have you done calculations—medical benefits for me are real benefits, benefits that I would have to pay for out of compensation if I wasn't given them by my employer. Have we calculated that?

Mr. KOSTERS. The Census Bureau, for example, does make an effort to include some of them. But its methods lead to inclusion of, as I recall, less than 20 percent of the value of Medicaid benefits, for example. Now, I agree that it is not easy to figure out a good way to take them into account fully, but nevertheless I think we should try to do better given their importance in the economy.

Mr. SANTORUM. Another question with respect to the increasing poverty—what effect do you believe that government mandates on employers has on depressing the wages that employees receive and depressing the opportunities that they have for employment?

With that in mind, how would you think a national health care employer-mandated, government-mandated employer health care system would affect the poverty rate in America?

Mr. KOSTERS. All the evidence that I am familiar with suggests that for every dollar that a mandate costs, the wage component tends to be lower by about a dollar in order to keep costs what they were before. To the extent that a mandate reduces employment greatly, if it is a really big factor, of course, its costs might not be fully offset.

With regard to the really low wage people in the economy, the people affected by the minimum wage, for example, it is not possible to reduce the wage to offset the increased costs. So I would expect that a major increase in costs associated with, for example, provision of a national health care mandate, unless it were heavily subsidized out of tax revenues from elsewhere, would very sharply reduce employment and reduce it most among those with the lowest earning capabilities.

Mr. SANTORUM. So could the argument be made that what we have seen over the past 25 years is a dramatically increased role of government mandates in employer situations that has possibly contributed substantially to the growth of poverty and the increase of unemployment rates across the low-skill individuals in our country?

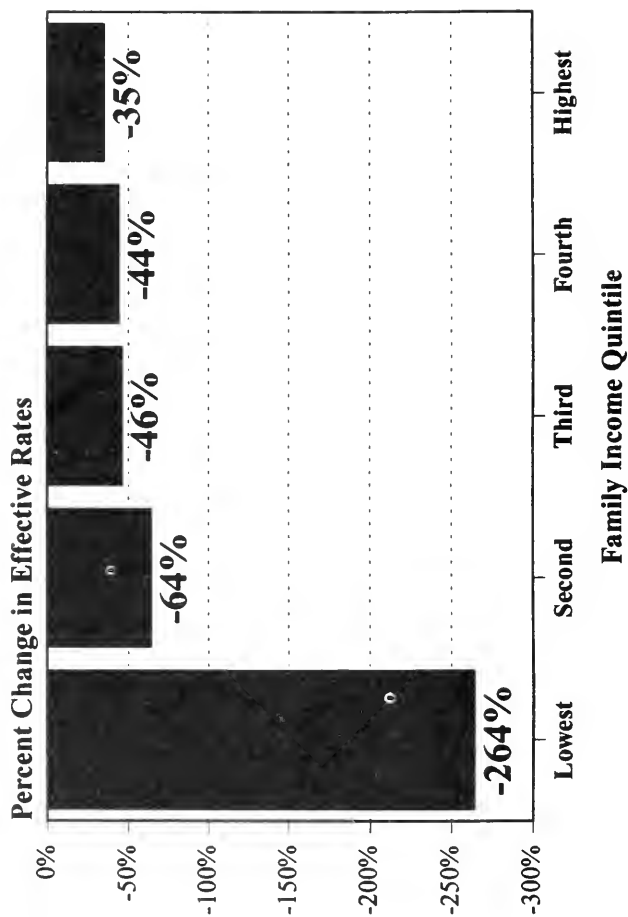
Mr. KOSTERS. I think it has had such an effect, maybe not enormous and certainly hard to measure. It has effects that come up in two ways. One, it tends to raise employment costs and therefore reduce employment and reduce wages. The other way in which it shows up is that the reduction in cash wage payments is reflected in lower incomes for families and hence higher poverty rate measures. But the benefits that presumably motivated the policy in the first place remain unmeasured in our income and poverty measures.

Mr. SANTORUM. I have a couple of charts that I wanted to show Mr. Gottschalk. A comment was made—Ms. Karoly also made the comment—about the inequity of the Reagan-Bush tax cuts. CBO did a study just with respect to income tax—did not factor in as you did Social Security taxes and did not factor in the Social Security benefits which are very progressive—in the Reagan-Bush increases. That is not a fair way to account for that.

If you look at what the falling tax rates have been from 1980 to 1992, you see that the most benefited group is the lowest—this is CBO data, not Rick Santorum data—the lowest quintile, and that is consistent up through the top quintile. But the lowest income gravity, the folks that we are most concerned about here were the most beneficially affected, the earned income tax being one reason and there are a whole lot of other reasons.

[The chart referred to follows:]

Falling Income Tax Rates by Income Quintile, 1980 vs. 1992



Source: Congressional Budget Office.

Mr. SANTORUM. As you know, the earned income tax which you spoke so highly of was raised twice during the Republican administrations. Even though Mr. Hill says that there was nothing done during those periods of time to help poor people, I think those kinds of statements are not necessarily accurate or productive.

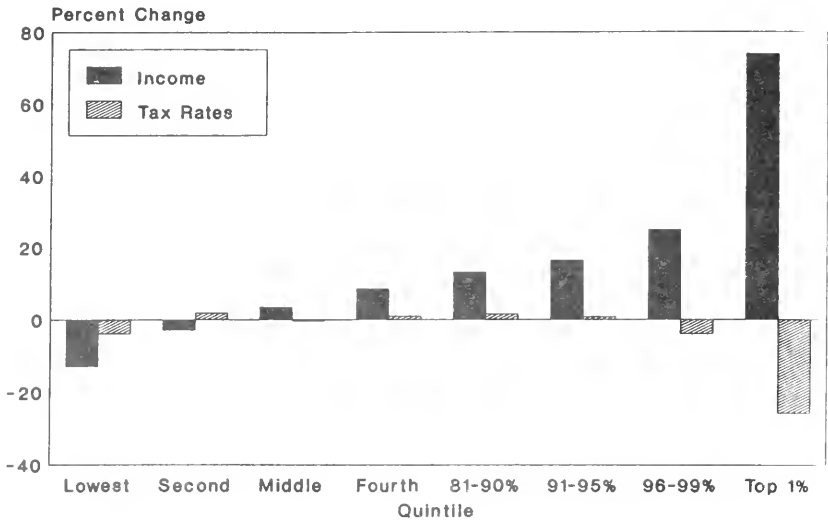
You stated that AFDC benefits over the Reagan-Bush administrations decreased—correct. But if you look at means tested spending per person in poverty, the chart that Mr. Grandy introduced earlier shows a definite increase per person in spending on means tested programs during the 1980s. We can rifle shot programs to make things look like there were cuts, but if you look at the comprehensive picture of what these programs have done and what the Republican administration did, I am not too sure they paint the picture that you folks have tried to paint here this morning.

Chairman FORD. I am going to yield to Mr. Kopetski in one moment. Put Mr. Santorum's chart up again. It focuses on tax rates, not income. But when you look at income in my chart, the rich of this country made significant gains under the Reagan administration and the poor of this country suffered dearly.

[The chart referred to follows:]

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CHART 1. PERCENT CHANGE IN PRETAX INCOME AND FEDERAL TAX RATES FOR ALL FAMILIES, 1977 TO 1990



Mr. Kopetski.

Mr. KOPETSKI. Thank you, Mr. Chairman. This is an enlightening hearing. Mr. Hill, I have read through all of your testimony and I think it is a very insightful statement of social history and economic history since the late 1960s. I agree that we failed as a society when we stopped targeting demographic groups in this country. I think there is a movement to get back to doing just that in teen mother programs, et cetera.

Statistics are what we all know about them. You can make them say whatever you want them to say. I want to make a number of points. One is about household income and making comparisons about it. What we forget when we talk about household income today is that because whether it is international competition or the tax policies, or the alarming divorce rate increase, women went to work. Or they went to work in order to just maintain, their husband was working and they wanted to maintain a standard of living which has been declining even with them working. You talk about all the job growth in the 1980s, it wasn't by choice in many instances. It was by economic necessity that women had to go out there in order to stay out of the poverty level or to hold on to their homes.

That is what happened in this country. So you have to look beyond just statistics and you have to look inside the definitions as well. My colleague from Pennsylvania talked about fault or victimization, and I am sure that there are some 16-year-olds that dropped out of high school and are irresponsible for that, but if you look at what these statistics, this data is saying today, it is that we are not progressing as a Nation.

With all the things we can do in telecommunications and so many other areas, if you look at what is happening to the people in America, the child in America, we ought to be ashamed of ourselves. We should be ashamed of ourselves in terms of what is happening. Somehow we think it is a victory if we are just maintaining the current levels of poverty. That is just ridiculous; absurd.

When we talk about the good old days of the 1960s where there was 10 or 11 percent poverty, we should have been ashamed then as a society. When we talk about whose fault it is, when you talk about a 16-year-old child, a 1-year-old child, is it their fault that their parent was on drugs or alcohol when they got pregnant? No. You look at what is going on in the classrooms, those are tough children to educate. It is not their fault.

I am sorry, but I am glad that I wasn't, with all due respect, Mr. Chairman, that I wasn't born black in America. You have all the odds against you in this society. If you are just born black, it doesn't matter if you are in a middle class or poor black family, the deck is stacked against you economically.

We got away from addressing that population particularly in the 1960s and we didn't move on to address the Asian population that has moved in here or the Hispanic population where the numbers of immigration changed. It is not a child's fault that drugs are being dealt on every neighborhood corner in some sexes of our city, that the peer pressures inside the school building are not to study. It is not the child's fault that there are guns and knives and every-

thing else going into the school grounds that makes it very difficult to learn.

It is not the child's fault that they didn't get immunized as a child. It is not the child's fault that they didn't get good nutrition when they were growing up or they don't get good nutrition that day, which is so critical to learning. If we want to place blame some place, let's blame ourselves, adults in this society, because we are the ones that created this. It is not getting better. It is not. So I look at all this stuff and I say, you know, we can't pat ourselves on the back. Let's not do that as a society.

We ought to be ashamed to walk into a U.N. meeting when we start talking about poverty. We talk about we will, it wouldn't be so bad—we have to not just look at wages, we have to look at the benefits that people get.

One of the reasons we are trying to address universal health care is because three-fourths of the people who are working don't have health care coverage or members of their families don't. Now, it seems to me that, and I know there is a strong correlation between that population of people that is working, that want to work, that do all that is necessary to get to the job site and get home and that includes taking care of your children before school, after school, having to take a car or bus, clothes, training—these people are working and they don't have health care coverage.

I would like to know, Mr. KOSTERS, what you think in terms of that because you are addressing a population that is being served with health care coverage and that is included in their wage base. Let's talk about these that aren't.

Mr. SANTORUM. If the gentleman would yield, you said three-fourths of American families who are working do not have health care?

Mr. KOPETSKI. Families, a worker is working and the family doesn't have health care coverage—I will have that statistic over to your office in an hour.

Mr. SANTORUM. Thank you.

[The information follows:]

"About three-quarters of the uninsured are in the workforce or are in a family where at least one person is employed * * *" (Statement of Nancy M. Gordon, assistant director, Human Resources and Community Development Division, Congressional Budget Office before hearing of the Subcommittee on Health, January 26, 1993, "Current Trends in Health Care Costs and Health Insurance Coverage")

Mr. KOSTERS. Whatever the estimate might be, and that sounds extremely high to me, I would say that there are things that could be done to increase the proportion of people who purchase health insurance. For example, if you are provided insurance by your employer, its cost is all tax advantaged. But the self-employed, for example, get only a very limited tax advantage. I ask myself why shouldn't people who are self-employed get the same tax advantages as salaried workers?

Mr. KOPETSKI. We restored that and put it back at 25 percent and I understand the President wants to raise that to 100 percent.

Mr. KOSTERS. That is one of the steps that could be taken to encourage people to provide for their own health plan. I think that is a good idea.

Mr. KOPETSKI. So you would support that mandate?

Mr. KOSTERS. I would support a tax advantage for self-employed to the same level as that for those employed. I would also support caps on those who are employed, of course, because of the concern in this country about what we are spending on health care. This concern arises mainly because of the kinds of incentives that are built in to various aspects of government policy. But apart from that, it seems to me we shouldn't be really concerned about how much we spend on health care as long as people are willingly spending that amount out of their own funds.

Mr. KOPETSKI. In terms of affecting the poverty rate in this country you think that would be a positive step?

Mr. KOSTERS. I don't think it would have any great effect on the poverty rate. In the normal measure of the poverty rate, health care doesn't really considered which is a shortcoming of our measurement.

Mr. KOPETSKI. Ms. Karoly, you talked about women's earnings have increased over the last decade—how does that square with female heads of household statistics being less than men and below the poverty level? Are you talking about two different classes, of groups of women in the work force?

Ms. KAROLY. No. The figures that I cited originally referring to the wage distribution for women indicate that when you look at women at the low end of the wage distribution and at the high end of the wage distribution and compare that to 20 years ago, all of them have seen real wage gains. What that is talking about is a population today of women in the labor market who are on average better educated, and have more labor market experience so those factors are tending to raise their wages compared to women in the past. But I think that the population that you are addressing, female-headed families, for example, to the extent that they have lower skills and lower education, they will still be on the lower end of wage distribution and as a result their incomes will be lower compared to someone who is working and has higher skills that they bring to the labor market.

Mr. KOPETSKI. Mr. Gottschalk, your assessment of the likely effect of increased worker training programs combined with greater emphasis on educational reform—would that be significant in terms of affecting the poverty rates?

Mr. GOTTSCHALK. Training programs—

Mr. KOPETSKI. For displaced workers or underskilled individuals or nonskilled individuals as well?

Mr. GOTTSCHALK. The consensus now seems to be that training programs have positive impact. That was the question maybe 5 or 10 years ago—but they are not large enough to make people completely self-sufficient. A very successful training program may raise the earnings of a female-headed household by \$1,000. That is a fairly good outcome. That is simply not enough to turn this welfare mother into a middle-class citizen. So training programs work, but we shouldn't expect them to solve the problem. I think the problem is deeper than that.

Mr. KOPETSKI. During the 1980s the thought was trickle down, the rising tide would make life better for everybody else. Does the census data tell us something else, that we have to get back to targeting certain segments of our population, be it by gender or cul-

tural heritage or ethnic background or urban versus rural or regions of the country?

Mr. KOSTERS. It is my impression that the census data by themselves can't really answer a question like that, what the merit would be of targeting individual groups or whatever. Surely we can get a lot of detail from the census data on income measures by demographic group and so on, but that doesn't by itself tell us what we ought to do to improve the distribution.

Mr. KOPETSKI. I should have said given the fact that we have limited resources as a Nation.

Mr. HILL. One, the census data, the poverty areas—they have the highest rates of all these problems, so target the poverty areas. There are mechanisms to permit one to target the places where the problem is most acute.

Mr. GOTTSCHALK. The notion that a rising tide lifts all boats has been discredited. As far as targeting, I would target on the basis of income. There are low-income whites, rural folks. I think there is a lot of room to try to help low-income people of all types.

Mr. KOSTERS. Could I make a further comment on that?

Chairman FORD. Surely.

Mr. KOSTERS. It seems that it is not entirely clear to me what targeting means. Take a program like the earned income tax credit. I would say that this program is in many respects less targeted than many welfare-type programs. Does that mean that it is necessarily worse? It seems to me you need to ask yourself that kind of question in considering the merit of targeting.

Mr. KOPETSKI. Thank you.

Chairman FORD. Dr. Koters, you mentioned something earlier and I want to make sure I understand you. You said that a health care plan would reduce the number of people in the workplace and would create additional unemployment. Did you say that earlier?

Mr. KOSTERS. The employment effects would depend very much on how a health plan were financed. If it were financed by placing a mandate for a certain given number of dollars that every employer would need to pay for every employee, I would judge, yes, employment would be reduced.

Chairman FORD. A universal plan is going to cost an employer some money somewhere down the line. How did you come up with these facts and figures? How do you determine that? Have you studied this issue?

Mr. KOSTERS. Partly, I come up with those figures by looking at minimum wage studies.

Chairman FORD. You compare minimum wage studies with health care?

Mr. KOSTERS. Yes, in the sense that minimum wages and their employment effects are analyzed by asking what it means for the cost to the employer. It seems to me that if you ask what does the health plan, and its cost, mean for the cost of employing an additional worker, you have a similar conceptual structure. So it seems reasonable to ask what is the effect of higher minimum wages, or of other programs that increase employment costs?

Chairman FORD. But you really haven't studied the trends of small businesses to make any determination—

Mr. KOSTERS. We have not had an experience of major health cost mandates——

Chairman FORD. You are not talking with an authoritative voice——

Mr. KOSTERS. We have not done that experiment in this country, so I don't think anyone could say on that basis anything with confidence.

Chairman FORD. Earlier, I pointed out for the panel that Mr. Santorum's chart focused on tax rates. It covered the period from 1980 to 1992. I have from CBO a chart that is for a slightly different time period from 1977 through 1990. It shows that the income among the top percent increased almost 70 percent over the same period. The lowest income quintile lost about 14.5 percent of income. Focusing on tax rates misses what is happening to income. We need to look at both.

I want to thank the panelists for coming today. This type of input is going to be useful to us. This subcommittee will be charged with the responsibility of looking at these trends in poverty and trying to come up with a replacement for welfare. We will be looking at jobs as a replacement for welfare. We need some type of jobs program that will work, not workfare, but a jobs program that will say to low-income Americans that we are going to redistribute the wealth, and that all Americans will have gainful, meaningful jobs in this country. Thank you for coming today.

I would like to call the next panel, C. Michael Henry, Ph.D., economist, Institution for Social and Policy Studies at Yale University; Jeffrey Lehman, visiting professor of law, Yale Law School, professor of law and public policy, University of Michigan; Dr. Samuel Myers, Jr., Roy Wilkins, professor of human relations and social justice, Hubert H. Humphrey, Institute of Public Affairs, University of Minnesota.

Mr. KOPETSKI. Mr. Chairman, I have a chart from the Employee Benefits Research Institute of 1992 which shows that workers and their families constitute 85.5 percent of Americans without health insurance. I would like that to be made a part of the record.

Chairman FORD. Without objection.

[The information follows:]

Who Are The Uninsured?

85% of Americans without health insurance are workers and their families.

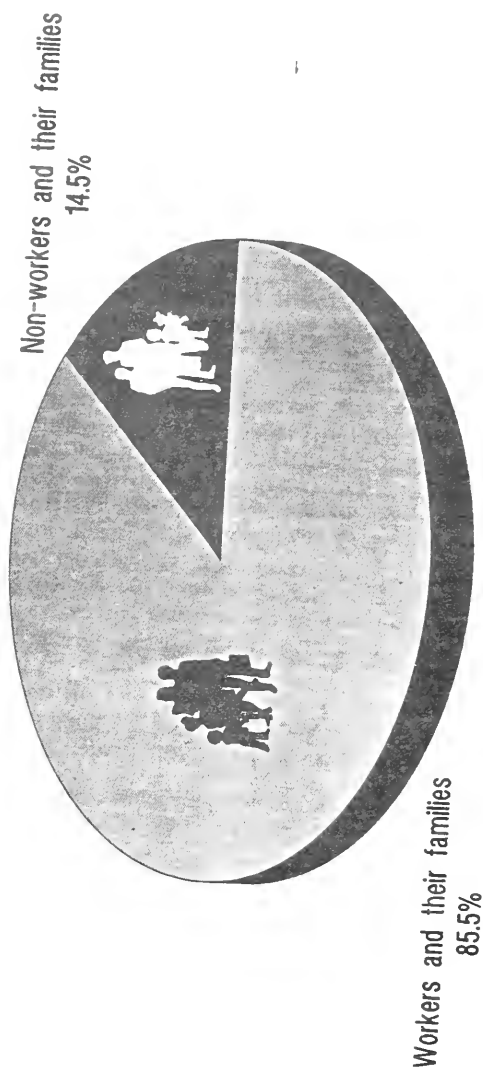


CHART 2

SOURCE: 1990 data, Employee Benefit Research Institute, 1992

Chairman FORD. Before I recognize the panel, I have a question. Mr. Lehman, are you professor of law at the University of Michigan or a visiting professor at Yale?

Mr. LEHMAN. I am a professor of law at the University of Michigan Law School and a member of the faculty at the University of Michigan Institute of Public Policy Studies and I am a visiting professor of law this fall at the Yale Law School.

Chairman FORD. I have a son in law school at the University of Michigan. That is why I was raising the question.

Mr. Henry, the committee will recognize you at this time. The full text of your testimony will be made part of the record. You may summarize.

**STATEMENT OF C. MICHAEL HENRY, PH.D., ECONOMIST,
INSTITUTION FOR SOCIAL AND POLICY STUDIES, YALE
UNIVERSITY, NEW HAVEN, CONN.**

Mr. HENRY. Thank you. I would like to thank the committee for its invitation to testify. The committee is interested in trends. What we have observed today is a rather melancholy statistical portrait of increasing poverty. But statistics are only summary measures in the sense that they only give us a very small part of the picture.

An insufferable amount of pain and suffering is experienced by the impoverished. Given the adverse trend in poverty, I make a proposal to reverse this trend. I focus primarily on cities for the simple reason that in the cities poverty is much more intense and has given rise to a number of deleterious attendant factors such as crime, et cetera. My model of poverty alleviation is a community economic base model, an extension of a model developed some years ago by Professor Charles Tiebout. This model shows how economically stable communities may be developed, that is communities made up primarily of blacks and Hispanics referred to as minority groups.

Statistically, it has been shown that black entrepreneurs employ black workers. In addition, in recent work by my colleague, Professor Myers, has shown that when economic opportunities are extended to the poor of the city, the crime rate falls. These citizens are quite capable of working hard to earn their way out of poverty. Indeed, they are not lazy. They are interested in gainful employment.

A number of minority youth are trained, but there are limited job opportunities available to them. Some complain that they did get training but alas subsequent employment was either of 3 to 4 months duration, or if longer, there was little opportunity for advancement. This information was shared with friends, who consequently show no interest in job training since it did not provide long-term employment.

My community economic base model proposes that instead of making transfer payments to the inner-city poor, governments may provide contracts to inner-city entrepreneurs for provision of services to the government, that is Federal, State and city governments.

Now, what types of service are we considering here? Government would sign contracts to inner-city entrepreneurs for construction,

janitorial services, garbage disposal, maintenance, snow removal, et cetera. To be sure, these are merely a small subset of possible contractual activities. Historically, minority entrepreneurs have been excluded from these activities. They have made many attempts to win substantial government contracts.

If we were to allocate substantial funds for contracts to black entrepreneurs to provide these services to government units, and these black entrepreneurs employ inner-city labor to provide these services, this would have a multiplier effect on other activities in the community. These are activities of the basic sector.

Now, minority entrepreneurs lack the skills to provide these services and therefore we would have to develop minority entrepreneurship. Courses would have to be designed as was recently done in New York by the New York and New Jersey Port Authority. They undertook a survey of inner-city entrepreneurs and they provided courses and offered courses to remedy skill deficiencies.

At the end of the course, these entrepreneurs competed with their white counterparts in bidding for contracts. There was a significant difference in the size of contracts awarded to minority entrepreneurs who took the course.

Having provided contracts to minority entrepreneurs, and we would also need to have the minority labor trained and skilled for gainful employment by the entrepreneurs.

A distinction is made between training and skill in the sense that training involves acquiring appropriate behavioral characteristics. Many individuals who have been out of the labor force for a long time would require some assistance in that regard. Laborers would also be endowed with the skills required.

Within the community if we had 500 workers employed in the sector providing contractual services to governmental units, part of the earnings of this work force would be spent on goods and services which can be supplied within the community. That is, by entrepreneurs qualified for employment in these activities by completion of course and participation in the entrepreneurial extension service over a 5-year period. This extension service would employ skills of individuals who will work professionally with inner-city entrepreneurs to assist them in short-term problem solving and long-term decisionmaking. Periodic workshops would also be organized for entrepreneurs. Those who completed the courses would be eligible for loans to supply goods and services.

This would change the change the nature and character of the flow of funds from the Government to the inner-city community. Whenever that flow increases, it would provide a multiplier effect. In other words, it would give rise to socio-economic development and stable communities. I think I will stop at this point.

[The prepared statement follows:]

C. Michael Henry, Ph.D.
Institution for Social and Policy Studies
Yale University

Over the past three decades, mean and median family income grew at average annual rates of 1.4% and 1.6%, respectively. Indeed, between 1960 and 1991, mean family income increased from \$25,299 to \$41,491, and median family income increased from \$22,833 to \$34,488. In 1960, the share of income received by the highest fifth of the families was almost 9 times that received by the lowest fifth, but in 1991, this share increased to almost 10 times. In short, average income of the lowest quintile of families declined relative to the highest quintile. The measure given by the Gini coefficient in column 7 also indicates greater inequality in 1990 relative to 1960 (zero indicates perfect equality and 1.0 indicates perfect inequality).

The Level and Distribution of Family Income 1960-1991
(in 1990 dollars)

Year	Median Income	Mean Income	Percentage distribution of aggregate income			Gini Coefficient
			Lowest fifth	Highest fifth	Top 5%	
1960	\$22,833	\$25,229	4.8	41.3	15.9	.364
1970	\$31,226	\$35,147	5.4	40.9	15.6	.353
1980	\$33,386	\$38,073	5.1	41.6	15.3	.365
1990	\$35,353	\$42,652	4.6	44.3	17.4	.396
1991	\$34,488	\$41,491	4.5	44.2	17.1	.397

Source: Sheldon H. Danziger(1993), "The Historical Record: Trends in Family Income, Inequality and Poverty" (Unpublished paper)

Despite this decline, however, under the official measure of poverty, the percent of the poor fell from 22.2% in 1960 to 11.1% (its lowest point) in 1973 after which it increased to 13.5% in 1990 and to 14.2% in 1991. With respect to racial composition of the poor, in 1990, whites constituted about two-thirds of the poor, blacks 29% and Hispanics about 18%. However, about 32% and 28% of black and Hispanic subsets of the populace, respectively, are poor, whereas only about 11% of whites are poor. The percentage of blacks in the population of the poor remained relatively constant (about 30%) between 1960 and 1990 whereas the percentage of Hispanics increased from 9% (1970) to 18% in 1990. However, earnings of black family-heads relative to whites has deteriorated. According to Darity and Myers, in 1976, the earnings ratio of black to white family-heads was .63, whereas in 1985, it was .59, which means that for every \$100 earned by white family-heads in 1976, their black counterparts earned \$63 which fell to \$59 in 1985. Hence, over this period, relative earnings of black-family heads declined.

Furthermore, the proportion of the poor residing in metropolitan areas increased from 44% in 1960 to 73% in 1990, and in the central cities, the resident poor increased from 27% to 42%. The poor are therefore concentrated in metropolitan areas and in the central cities, where blacks constitute a relatively large proportion.

Profile of the Poverty Population

	Percentage of the Poor Population/				Percentage Poor			
	1960	1970	1980	1990	1960	1970	1980	1990
All persons	100%	100%	100%	100%	22.2	12.6	13.0	13.5
Race								
White	71.0	68.5	67.3	66.5	17.8	9.9	10.2	10.7
Black	29.0	30.0	29.3	29.3	55.9	33.5	32.5	31.9
Asian or Pacific	NA	NA	NA	2.6	NA	NA	NA	12.2
Hispanic	NA	8.5	11.9	17.9	NA	24.3	25.7	28.1
In metropolitan areas	43.9	52.4	61.6	73.0	15.3	10.2	11.9	12.7
In central city	26.9	32.0	36.4	42.4	18.3	14.3	17.2	19.0
In suburbs	17.0	20.4	25.2	30.5	12.2	7.1	8.2	8.7
Outside metro. areas	56.1	47.6	38.4	27.0	33.2	17.0	15.4	16.3

Source: Danziger, op. cit., p.17

Thus, over the past three decades, shares of mean and median family incomes received by the highest fifth of the populace increased relative to those received by the lowest fifth; and the share received by the top 5% increased from 15.9% to 17.1%. This spawned greater inequality. Second, the ratio of black to white earnings declined and blacks and Hispanics as a percent of the poor increased. Third, the proportion of the poor residing in metropolitan areas and central cities increased and the proportion of blacks and Hispanics as a percent of the urban poor has grown larger. My proposal for poverty alleviation therefore focusses on central cities but may very well be extended to other communities.

Concentration of the poor in central and inner cities has led to greater frequency of crime, greater prevalence of female-headed households, declining rates of labor force participation, greater infrequency of marriages etc., much of which may be explained by racial barriers cum unavailability of opportunities for remunerative and meaningful employment. This poverty may be characterized as multiple-deprivation; that is, deprivation of gainful employment; adequate health-care, education, housing, clothing, food, etc.; and cultural deprivation. Despite its multiple dimensions, however, this poverty may be measured by income and thus its alleviation may be effected by establishment of a significant circular flow of inner city income through development of a community economic base (in inner cities) for socio-economic development of the community in toto.

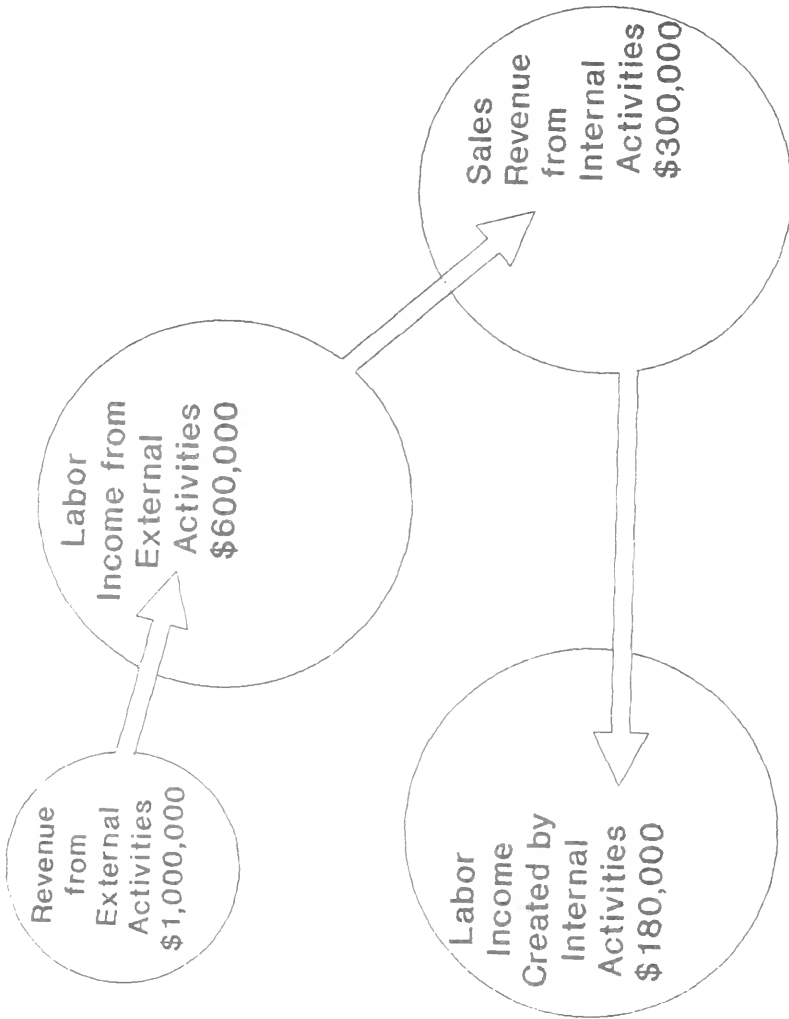
The Framework for Poverty Alleviation

Socio-economic development entails enlargement of opportunities for inner city residents through establishment of an inner city economic base by which minority entrepreneurs may provide contractual services to fiscal bodies (Federal, State and city) through minority entrepreneurial development, as well as concomitant training and skill endowment of minority labor for

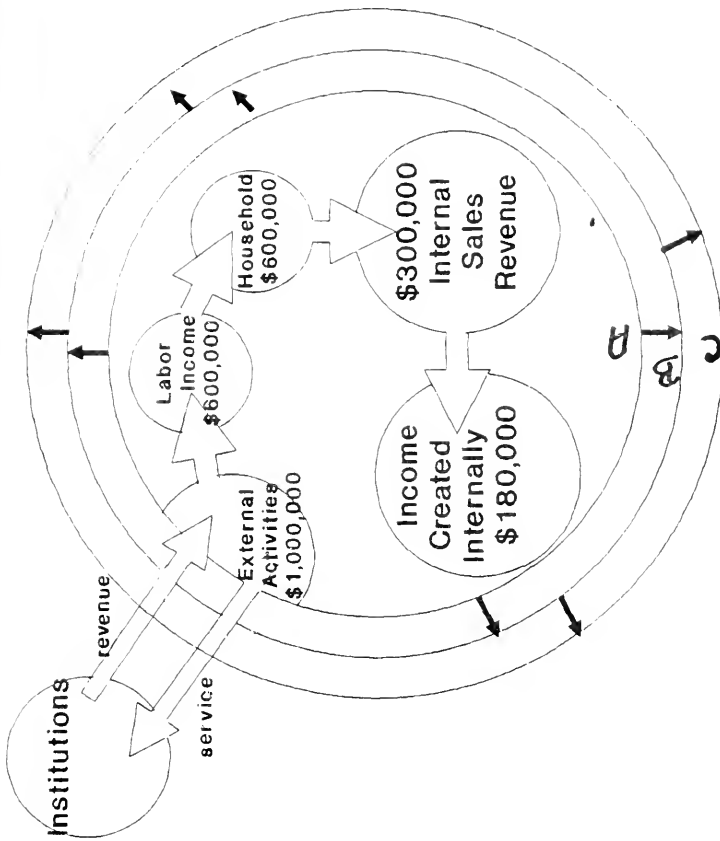
gainful employment by these entrepreneurs. Establishment of a community economic base entails development of two sectors: a basic and a nonbasic sector. Entrepreneurs engaged in the basic sector provide contractual services to fiscal bodies; and those in the nonbasic or adaptive sector supply qualitatively adequate goods and services, at competitive prices, to inner city households. Skill endowment of inner city labor is considered distinct from general training which emphasizes development of behavioral traits (discipline, punctuality etc.) appropriate to gainful employment; whereas entrepreneurial development includes, among others, financial capital availability, and organizational, managerial and technical skills specific to enterprises satisfying household and institutional demand. Development of entrepreneurs will entail provision of managerial, organizational and technical courses to inner city entrepreneurs followed by a five-year entrepreneurial extension service to those who have completed the courses and are engaged in entrepreneurial activities. This development coupled with gainful employment of inner city labour will enhance the standard of living of the community and foster its cultural enrichment. Thus income enhancement is not an end in itself, but a means to advance **people development** through social policy.

Economic activities in the inner city are therefore assumed bifurcated into **nonbasic activities** satisfying household demand and **basic activities** providing services to public and private institutions. Analysis of inner city household expenditure patterns will determine commodities and commodity groups which may be profitably supplied, over time, to households of different characteristics (age composition, education of head of household, etc.) and income levels. Activities considered basic to the inner city economy generate income a portion of which provides an internal market, that is, the market for household goods and services supplied by minority entrepreneurs (and their inner city employees). It is activity in this market which **creates income** in the inner city. Hence, the economic significance of fiscal bodies and private institutions to establishment and growth of basic activities in the inner city can hardly be overemphasized.

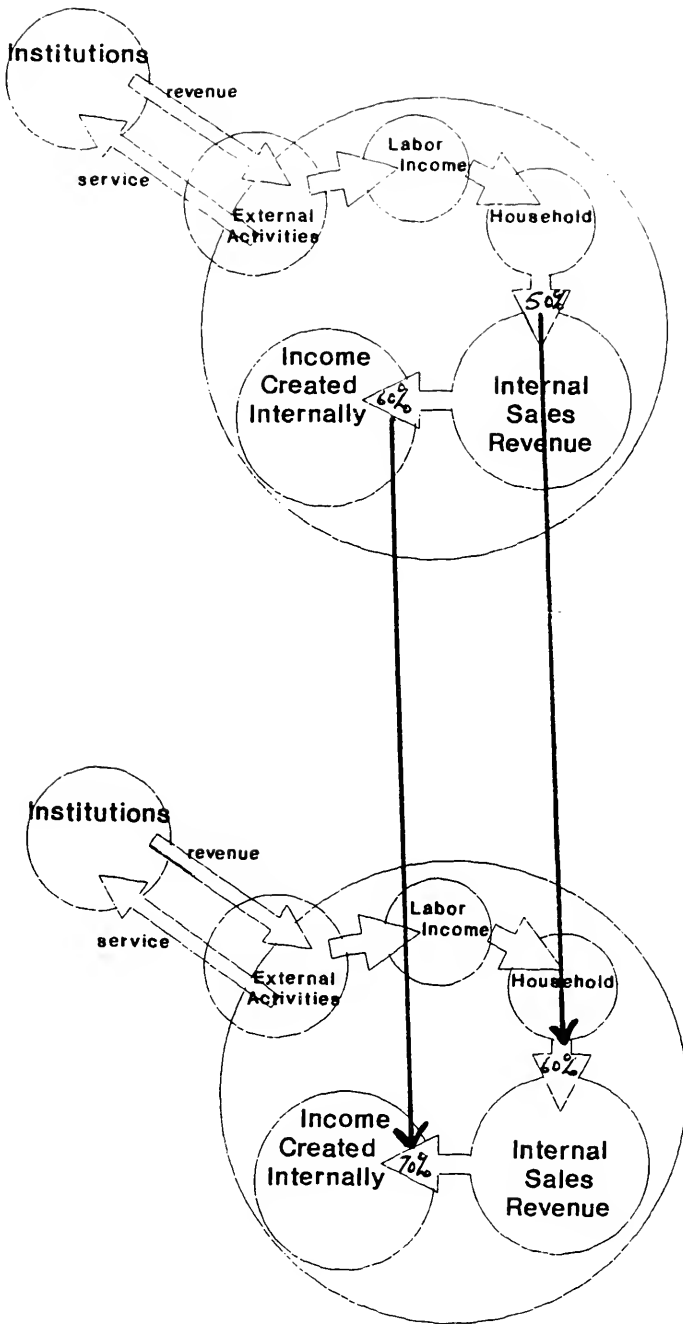
For example, assume that minority entrepreneurs in the basic sector secure annual service contracts of \$1,000,000, of which 60% pays wages and salaries (net of taxes) to inner city labor. This \$600,000 represents household income. In addition, assume households spend 50% or \$300,000 of this income on goods and services generating internal sales revenue of \$300,000. Furthermore, assume that 60% or \$180,000 of internal sales revenue pays wages and salaries to inner city labour (employed in the nonbasic sector) and households, once again, spend 50% or \$90,000 of this income on household goods and services (supplied internally), of which 60% or \$45,000 pays wages and salaries to inner city labor. Thus, \$180,000 of income are created internally in the first round of the process of income generation and \$54,000 in the second round. This process continues as households spend 50% or \$27,000 internally on goods and services, which creates an additional \$16,200 of income internally. The process of **internal income creation** will continue until total inner city income increases by approximately \$430,000 as a result of external injection of \$1,000,000. It is important to note, however, that this income will be created internally, if and only if, inner city entrepreneurs are developed, inner city labor are skilled and trained for gainful employment by these entrepreneurs and profitable household (inner city) markets are identified. The process of inner city income creation is schematically depicted on the following page.



Another depiction is given below where size of the inner city economy, measured by circumference of the circle, increases as the circular flow grows larger over time, hence enlargement of the circumference from A to B to C.



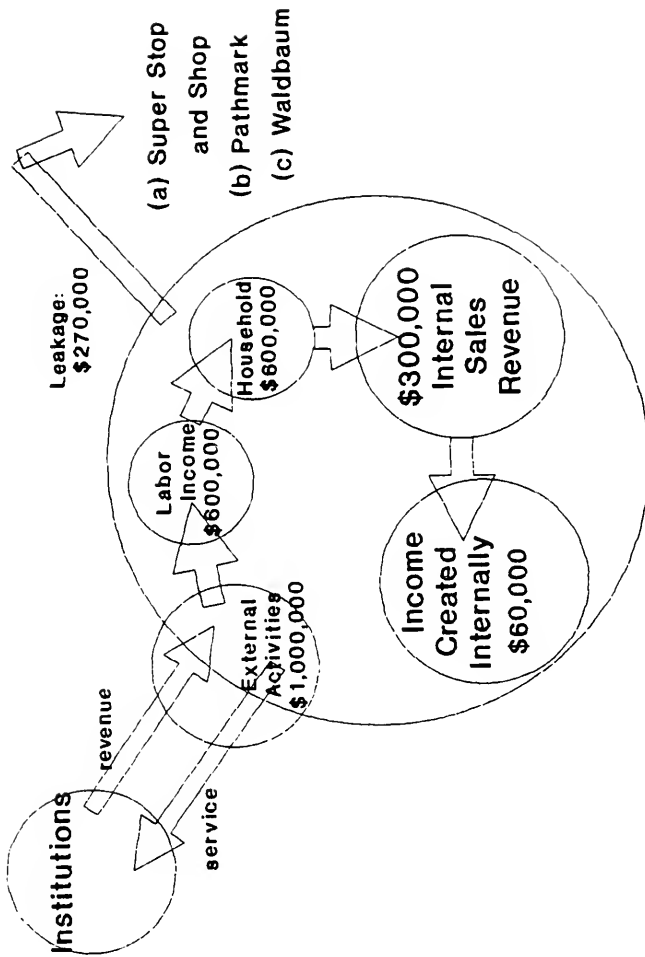
Internally created income may be increased by expansion of basic activities, say, from \$1,000,000 to \$10,000,000 of annual service contracts which would increase income generated internally tenfold (everything else constant); or, by increasing labor income as a proportion of revenue from internal activities, and the proportion of labor income spent in the internal sector. For example, the multiplier for an external injection (service contracts) of \$1,000,000 is 1.43, when wage income as a proportion of internal sales revenue is 60% and 50% of household income is spent internally. That is, for every dollar of external injection, 43 cents of income is created internally. Hence, injection of \$1,000,000 creates inner city income of \$430,000. However, if the proportion of total inner city income spent internally by households increased from 50% to 60% and the proportion of internal sales revenue constituting inner city wage income increased from 60% to 70% (see graph on following page), the multiplier increases from 1.43 to 1.72. That is, for every dollar of injection, inner city income now increases by 72 cents. Thus, injection of \$1,000,000 now creates \$720,000 of income internally, and injection of \$10,000,000 will create internal income of \$7,200,000. Moreover, if average annual income of inner city labor is, say, \$20,000, then the income created will account for 360 inner city jobs. Therefore, the larger the proportion of wage income, and the greater the proportion of income spent internally, the larger is the income created internally, and thus the more self-sufficient (with respect to such government transfers as welfare and the like) is the inner city community.



Presently, the basic sector of the inner city economy is small, in part, because minority entrepreneurs are recipients of only a relatively small number of contracts from government and private institutions. This is due, in large measure, to the enduring practice of systematic exclusion of minorities from such contractual arrangements. Hence, external injections are insignificant. Second, minority entrepreneurs lack adequate financial capital to foster development of substantial entrepreneurial skills and experience. Inadequacy of financial capital has led to attempts at "joint ventures" between cash-strapped minority entrepreneurs and financially well-endowed white entrepreneurs (or whites with access to capital from financial institutions), to secure government and other institutional contracts earmarked for minority enterprises. But a preponderance of profits and other benefits from these ventures accrue to white entrepreneurs. Indeed, minority entrepreneurs in these ventures are referred to pejoratively as "fronts", since this is a rather thinly veiled attempt by their white counterparts to usurp contracts earmarked for minority enterprises. Third, opportunities for training and skill acquisition are not widely accessible to minority labor, and where training and skills are acquired, long term employment opportunities may not be available, or, where available, the wage income may not be in line with the average for the skill acquired, especially in the private sector (of the larger economy), where employment of black labor accounts for less than 11% of sectoral employment. Fourth, the portion of labor income presently spent in the inner city is relatively small owing to unavailability of goods and services that are price-competitive and qualitatively adequate. For these and sundry reasons, the circular flow of inner city income is both relatively small and anaemic.

Therefore, a relatively large portion of household income may be spent internally, if and only if, price and quality of household goods and services (supplied internally) are competitive and adequate, respectively. Indeed, inner city households will not spend significant portions of their income on goods and services that are not price-competitive and are of shoddy quality. Hence the initial emphasis of this framework on entrepreneurial development, trained and skilled labour, and adequacy of financial capital. The market, in the sense of commodities and commodity groups to be profitably supplied, must be identified by analysis of household expenditure patterns, but developed minority entrepreneurs and skilled inner city labor are indispensable to its capture and enlargement. If household goods and services are not price-competitive and quality is inadequate, then significant leakage from the inner city economy will occur. That is, household goods and services will be purchased outside the inner city significantly reducing the multiplier and, by extension, the circular flow of income.

For example, when \$1,000,000 are injected into the inner city economy, if, instead of 50%, 10% of household income were spent internally on goods and services, then revenue from internal sales will decline, and income created internally will fall reducing the multiplier to 1.06. That is, a dollar injected into the inner city now creates only 6 cents of inner city labor income. Thus, if 90% of \$300,000 of household goods and services purchased (see graph on page 5) are purchased outside the inner city from enterprises, such as, Super Stop and Shop, Waldbaum, Pathmark, K Mart, etc. (see graph below), then leakage will be considerable. And the greater is leakage from the inner city economy, the smaller is income created internally, and by extension, the circular flow of income. This holds regardless of the volume of activity in the external sector. In this framework, establishment of a significant circular flow of inner city income requires growth of internal activities to accommodate a larger volume of external activities.



Some Concluding Remarks:

This approach differs from proposed enterprise zones for urban development. Enterprise zones are areas in which traditional business enterprises are encouraged to operate through tax breaks and regulatory relief, to make job creating investments for employment of inner city labor, who will presumably acquire skills through on-the-job training, if not prior to employment. Such tax breaks redistribute resources in favor of relatively well-endowed traditional enterprises which may contribute to change in composition of inner city labor in terms of skilled relative to unskilled labor, but will not enhance general minority participation in overall economic activity. My proposed framework, however, does enhance such participation by training and skilling minority labor, and developing minority entrepreneurs to employ this labor to satisfy institutional and inner city household demand. Thus, in addition to changing the composition of inner city labor, this approach changes the occupational structure of inner city labor in terms of entrepreneurs relative to workers. Furthermore, minority entrepreneurial development includes provision of financial capital to which minorities have historically gained little access; ostensibly, because they lack experience, a track record, a viable market, etc. This framework suggests utilization of public resources not only for development of entrepreneurs and skilling labor, but also for identification of profitable inner city markets to ensure viability of minority-owned enterprises. It is this combination of measures which will enhance minority participation in general economic activity for procurement of a larger portion of the national economic pie. Developing minority entrepreneurs to employ skilled minority labor to satisfy household and institutional demand enhances minority participation in the economic process.

Thus, instead of giving traditional enterprises tax breaks to employ inner city labor, as proposed for enterprise zones, it would be more instructive to use tax revenue collected from these (traditional) enterprises to train and skill minority labor, develop minority entrepreneurs. In the long run factories may be established in the inner city to process raw materials used in production by traditional enterprises in the larger economy. This would expand the volume of basic activities in the inner city economy and "integrate" minorities into the production process as workers as well as entrepreneurs.

Chairman FORD. I was about to stop you anyway, doctor. Let me recognize Mr. Lehman. I have to leave. I have a luncheon at the White House at 12:30. Mr. Kopetski will chair the subcommittee.

I have one comment. We talked about the Comprehensive Employment and Training Act with the panelists who testified before this subcommittee earlier. CETA incorporated all the things that you have talked about.

There were those who testified earlier that public service jobs might be too costly. However, the violence and crime problems that plague our urban and rural areas throughout this country are also costly to Federal and local governments.

One of the things I am going to talk to the President about is NAFTA. Sure Fortune 500 companies support NAFTA. I am a free trader myself. But I think the big issue is how can Hispanics and African-Americans do business with Mexico and Canada? You have said that small businesses that are African-American owned usually employ African-Americans. If we are not going to be part trade in this country, we will be left out.

I think training and skills are important areas, but still it goes back to the issue of job creation. CETA has been able to move people from the public rolls to the private rolls. I never really worked for CETA, but family members, brothers and sisters did. I feel that I am a product of the War on Poverty and the CETA program in this country, and I made it to the Congress of the United States. So CETA does work.

I have a brother who is a county court clerk, one of the highest positions in the county. He started after graduating from college with the War on Poverty Program and moved into the CETA program and into the private sector and now into the public arena once again.

Mr. HENRY. Actually the training and skilling of workers and entrepreneurs in may framework is really tied to job creation in viable economic activities identified in the inner city. If we were to have Government provide contracts for inner-city entrepreneurs to give services to the government, then we tie in skilling of inner-city labor with employment by qualified inner-city entrepreneurs. In short, we are not simply training and skilling in a vacuum, but we are relating these to gainful employment.

The problem we have today is that we have some training and skilling, but a dearth of job opportunities for inner-city labor.

Chairman FORD. Mr. Lehman, visiting professor at Yale Law School.

STATEMENT OF JEFFREY S. LEHMAN, J.D., VISITING PROFESSOR OF LAW, YALE LAW SCHOOL, NEW HAVEN, CONN.; AND PROFESSOR OF LAW AND PUBLIC POLICY, UNIVERSITY OF MICHIGAN

Mr. LEHMAN. Thank you. I am happy to be here before the subcommittee today. The testimony that I am submitting today is based upon a chapter that I wrote for inclusion in a book on fighting poverty to be published by Harvard University Press this spring. That chapter includes a review of the literature evaluating CETA.

Since that seems to be a topic of interest to the committee today, I will offer the full chapter as an exhibit to the committee for use later.

Mr. KOPETSKI [presiding]. It will be entered into the record in full.

[Due to the size of the exhibit, it will be retained in the committee's files:]

Mr. LEHMAN. The first point I would like to make is about the value of pursuing a nonurban urban policy. While the urban poor do pose special questions for public policy, the first line of attack in the new War on Poverty should continue to be general programs that do not turn on where a person lives.

I am thinking here of straightforward programs of human capital investment and income support such as Head Start, elementary education, child support enforcement, child nutrition programs, the earned income tax credit and, of course, universal health insurance. These are investments to improve skills in response to the technological change that Dr. Gottschalk spoke about and programs of income support for people who are left behind by technological change.

I would like to offer a detour regarding health insurance. As the Congress works with the President on health reform, there are two aspects of the plan that will affect the urban poor and it is important to keep both in mind at the same time. First, subsidies that are built into universal coverage will be beneficial to the working poor and to the urban poor in general, but I agree with what Dr. Kisters said earlier, that the choice of financing scheme could be very detrimental to the urban poor.

One example of this is that most economists believe workers ultimately bear much of the cost of Social Security taxes that are nominally imposed on employers. I think it is likely to be the same with health reform, and I hope the members will be careful when they strike the difficult balance between the benefits of the subsidy and the cost of the way that the funds are raised.

But my principal topic is not health care or any other aspect of the first line of attack on urban poverty. Rather my testimony primarily concerns the second line of attack. After we have done what we can to respond to the general phenomenon of poverty in this Nation, how can we respond to the special needs of the urban poor? To be frank, I don't know. Nobody knows. In this domain as in many areas of social policy we need to invest in small scale experiments. Small scale, well-designed experiments can help us to gather the kinds of information that we need to craft a uniform and national urban policy several years from now.

The section of my written testimony entitled, "Three Themes," suggests a theoretical framework for deciding what experiments to pursue. The three themes that I draw from the research literature concern employment, mobility, and the restoration of trust between workers on the one hand, especially African-American workers, and potential employers on the other.

The third section of my written testimony explores the concrete implications of the theoretical framework. I discuss specific areas of policy intervention. First, I stress the continuing significance of racial discrimination in employment and housing markets. In that

regard I urge an expanded experiment with section 8 housing vouchers along the lines of the Gautreaux model. Second, and perhaps more significantly, I suggest that the Congress aggressively pursue the experimental opportunity that was created by the enactment of legislation creating empowerment zones and enterprise communities.

The empowerment zone legislation authorized the selection of six urban empowerment zones and three rural empowerment zones. That legislation reflects a belief that the conduct of additional business activity within a neighborhood will reduce poverty within that neighborhood. Thus employers who hire more than one-third of their residents from an empowerment zone will gain tax subsidies if they carry out their business operations within the zone. And residents of empowerment zones are eligible for wage subsidies only if they work within the zone that they live in.

I recommend that the Congress proceed now to test an alternative model of empowerment zones. Rather than stressing the movement of business activity out of one neighborhood and into a depressed one, the alternative model would stress jobs and mobility anywhere and of any kind for people who reside in the neighborhood.

I recommend experimenting with a program that would make wage subsidies available whenever a business hires a previously unemployed empowerment zone resident regardless of where the resident is asked to work, and I recommend experimenting with guaranteed public sector jobs for adults who cannot find private sector positions.

I would like to stress why an experiment which would guarantee public sector jobs is worth pursuing. There is substantial reason to believe that many of the urban poor are not attractive to the employers. They are not supplying the kind of labor that employers are demanding. For that reason the first line of attack must continue to be investment in education and training of workers for jobs in the 21st Century. Yet it also seems to me that part of why the urban poor are not supplying desired labor has to do with the culture of distrust.

In such a culture potential sources of productive labor are unwilling to invest in themselves and are unwilling to persist in the belief that the job market will reward their investment. Breaking down the culture of distrust requires more than the government can do. Credible and courageous community leaders need to reweave a social fabric that has become badly frayed, but I believe it is possible that visible government commitments to wage subsidies and guaranteed jobs could make a critical difference in reinforcing the work that community leaders are doing.

Such commitments could make community leaders' claims of opportunity in America more credible. They could be the public sector counterpart to James Rouse's commitment to a class of Harlem 6th graders. We do not know whether such an experiment will work. We cannot know unless we try.

[The prepared statement follows:]

Testimony Before the Subcommittee on Human Resources
of
The House Ways and Means Committee

Jeffrey S. Lehman¹
October 26, 1993

Mr. Chairman, Members of the Subcommittee. I am grateful for your invitation to testify here this morning. The testimony that I will present is based upon a chapter entitled "Updating Urban Policy" that I wrote for inclusion in a book on fighting poverty. That book, which is being edited by Sheldon Danziger, Dan Weinberg, and Gary Sandefur, is scheduled to be published next spring.

Three Cautions

You have asked me to talk about what government in general, and the federal government in particular, can do for the urban poor. In responding to that question, I would like to begin with three words of caution about how we choose to describe national problems.

First, speaking of "urban" poverty suggests that we believe that it is somehow different from nonurban poverty. That it has different effects on people than nonurban poverty. And, indeed, there is some evidence that it might be worse to grow up as the poor child of a single, uneducated parent in a crime-ridden city neighborhood where your neighbors are mostly poor than it is to grow up as the poor child of a single, uneducated parent in a crime-ridden rural town. But these neighborhood effects seem to be quite small. Growing up poor is difficult, whether or not you are living in the city.

Second, and relatedly, speaking of "urban" poverty suggests that the only way to address it is with "urban" programs. Defining the problem geographically invites a geographically targeted solution. But that does not necessarily follow either. In the extreme case, eliminating all poverty would entail eliminating urban poverty. And in less extreme form, it may well be that the very best thing the federal government can do to help the urban poor is to continue to develop programs that are not spatially targeted. Programs like the earned income tax credit, national health insurance, child support enforcement, and general means-tested subsidies for child care, child nutrition, early childhood education, and adult education and training.

Third, there are independent reasons to be anxious about tying antipoverty programs to geographic boundaries. It may be arbitrary. It may be artificial. It may even be counterproductive if it deters people from moving to other locales where opportunities might be brighter. In other words, spatially targeted programs run the risk of hampering rather than enhancing mobility.

Now, having offered those cautions, I would like to emphasize that they are only cautions. There are theoretical reasons to believe that sometimes urban poverty might be different from nonurban poverty. And it may be that we are in a

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time where the most sensible approach to fighting urban poverty is to design special programs to do so. There is certainly much to be said for federally funded experimentation, under circumstances where we might conduct careful evaluations to see whether the experiments should be generalized.

Three Themes

How might such experiments be designed? Let me begin by stressing three themes.

The first theme has to do with employment. The modern literature on concentrated urban poverty is rich, diverse, and internally contradictory. But to the extent one can identify a single, widely shared, common concern, it is with employment. Weak attachment to the formal labor market has been called "the thread that ties ... together" the various aspects of concentrated urban poverty. When an entire community of adults is cut off from that market for an extended period of time, there can be potentially devastating consequences for both the individuals and for the larger community. Federal policy needs to concentrate on jobs.

The second theme has to do with trust. I fear that we are in the midst of a downward spiral of escalating interracial distrust. Many young black male employees distrust white employers, grounding that distrust in centuries of American racial oppression. Yet that distrust can, in and of itself, make them less valuable as potential employees. In one anecdote, a black employee views a request that he take on extra responsibility as the continuation of a legacy of exploitation. He resists. But by resisting he makes himself less valuable to the employer than a Mexican American who sees the request as benign. (Taub 1991; see also Kirschenman & Neckerman 1991).

Moreover, the distrust can transcend race. Any worker, regardless of race, can become alienated from the workplace. It would hardly be surprising for an individual who is rejected by the job market for an extended period of time to become discouraged. To give up on himself or herself. Federal policy needs to help rebuild workers' faith in the capitalist workplace as a fair source of opportunity, for all our sakes.

The third theme has to do with mobility. A moment ago I cautioned that spatially targeted programs might hinder mobility. The reason why such a concern is so important is that, in America, mobility -- in space and in society -- is a central aspiration. Our conceptions of equal opportunity require that citizens have a fair chance at competing for jobs for which their talents qualify them. Those conceptions are threatened if some citizens are forced to compete in a significantly "smaller" labor market than others, whether because they lack the same access to transportation as others or because they are impermissibly penalized by some employers for traits that should be treated as irrelevant. Federal policy needs to help tear down restrictions on the ability of any worker to move and compete.

Three Recommended Forms of Policy Response

Please permit me now to move from the abstract to the concrete. What do these general cautions and themes suggest are the primary domains for experimental Congressional intervention specifically on behalf of the urban poor? I will first talk about federal policy responses to direct restrictions on worker opportunity. I will then talk about federal policy responses to

indirect restrictions on worker opportunity. And I will then talk about the possibility of an even more active federal policy response -- a response that includes the amendment of the empowerment zone legislation to encompass experimentation with targeted public service employment programs.

1. Responses to Direct Restrictions on Worker Opportunity

One way a worker's opportunity to compete within a labor market can be constricted directly is if employers discriminate on the basis of race in choosing employees. Since 1964, federal law has generally prohibited employers from doing so. And the evidence suggests that such laws have had a substantial impact in reducing the incidence of discriminatory behavior. (Jaynes & Williams 1989).

At the same time, however, it is clear that the legal prohibition has fallen far short of eliminating the behavior. (Aleinikoff 1992). In the past few years, several studies have confirmed that racial discrimination remains a significant feature of American society. In the area of direct discrimination by employers against employees, studies using "testers" by both the Government Accounting Office (1990) and the Urban Institute (Turner et al. 1991; Cross et al. 1990) have documented significant levels of discrimination against blacks and Hispanics. And Kirschenman and Neckerman (1991) have documented an extraordinary willingness of employers to articulate racial generalizations about potential workers in face-to-face interviews with the researchers. It remains to be seen how much of a difference the Civil Rights Act of 1991 will make in this regard.

And yet, as we are all aware, legal regulation has a limited power to alter rationally self-interested behavior. And racial discrimination can sometimes be profitable. Accordingly, it remains important for prominent public officials to play an educative role. They must continue to remind their constituents that even when racial discrimination is profitable, it is wrong. It is simply immoral to evaluate a potential worker by the color of his skin. And as long as such private immoral behavior on the part of employers continues to run rampant in our society, it will remain appropriate for the public sector to look for ways to compensate the victims of that immorality.

2. Responses to Indirect Restrictions on Worker Opportunity

A labor market can also be constricted indirectly. To the extent one's employment opportunities are influenced by where one lives, they can be constrained by discrimination in housing markets. Massey (1990) has argued that a great deal of the increase in concentrated disadvantage known as the "underclass" is due to the interaction between a general nationwide increase in the poverty rate and high levels of residential segregation by race. And it is an undisputed fact that American housing markets are profoundly segregated on the basis of race. (Farley 1991; Jaynes & Williams 1989; Farley & Allen 1987).

Given the extent of residential segregation, the so-called "spatial mismatch" hypothesis describes another social phenomenon that might constrict the employment options available to some urban workers. In general form, the "spatial mismatch" hypothesis suggests simply that city residents have fewer earnings opportunities than they would have if they lived in the suburbs. Social scientists have attempted to measure the importance of spatial mismatch ever since John Kain articulated

the hypothesis in 1968. Several recent reviews have reached differing conclusions. Schill (1992a), Holzer (1991), Kasarda (1990, 1989), and Ihlanfeldt & Sjoquist (1989) have all been persuaded that spatial mismatch is at least "a significant factor" in explaining poverty among urban blacks. In contrast, Moss & Tilly (1991), Jencks & Mayer (1991), and Ellwood (1986) are largely unconvinced.

However, even if spatial mismatch is important, the policy implications depend on the mechanism through which the spatial mismatch arises. It could arise simply because the cost in money and time deters potential employees from taking jobs that they are aware of and that are available to them. In that case, substantial gains can be made by extending urban public transportation networks to efficiently link all parts of metropolitan areas and by distributing transportation vouchers to citizens who could not otherwise afford to get to work. One might even make such gains by subsidizing the purchase of cars.

But any spatial mismatch could also have arisen for other reasons. For example, space could be a proxy for social, rather than geographic isolation. It could indicate isolation from information about when jobs become available. Or it could indicate isolation from the personal acquaintanceships and informal networks that can enable one applicant to gain a job ahead of an otherwise indistinguishable competitor. (Pedder 1991).

Information isolation can be partially remedied through the creation of computerized job banks and information centers of the sort advocated by Kasarda (1988) and Wilson (1991). Isolation from personal acquaintanceship, however, is a much tougher problem. It calls for strategies to reduce the extent of residential isolation.

As in the case of employment discrimination, it would thus seem that antidiscrimination law enforcement is a necessary but imperfect tool of public policy. On the one hand, it has been suggested that the legal prohibition of overt discrimination stretched the geographic boundaries of the ghetto in ways that, while not producing integration for most blacks, have "permitted the filtering process to work to eliminate much of the completely unacceptable housing stock and to upgrade the quality of housing for minority families." (Orfield 1986, p. 24). On the other hand, the Fair Housing Act received remarkably little administrative and judicial enforcement during the first twenty years after its enactment. (Kushner 1988).

In 1988, Congress amended the Fair Housing Act to make both public and private enforcement much more feasible. A preliminary review of the effects of those amendments found that enforcement through both public and private litigation has grown significantly, but that efforts at increased administrative enforcement have been handicapped by inadequate administrative capacity. (Kushner 1992). Drawing on his own work and the work of others, Anthony Downs (1992) has offered a catalog of ways to reduce residential discrimination. Within that catalog, he assigns highest priority to the following six kinds of direct action:

- (1) expanding HUD's enforcement staff,
- (2) establishing metropolitan-area-wide antidiscrimination agencies,

- (3) increasing HUD support for state and local agencies,
- (4) expanding HUD-sponsored tester-based activities,
- (5) requiring state agencies to abolish caps on the amount of damages that victims can recover, and
- (6) conditioning the availability of Community Development Block Grant funds on the use of certain minimal antidiscrimination enforcement tools.

The Downs suggestions should unquestionably be an important part of a comprehensive urban policy. And yet, not even stepped-up antidiscrimination enforcement will counteract the segregating effects of socioeconomic differentials and of "self steering" by both black and white consumers. One response to the effects of socioeconomic differentials would be to attack suburban zoning practices that preclude the production of inexpensive housing in some suburban towns. In 1991, the President's Advisory Commission on Regulatory Barriers to Affordable Housing called for the limitation of federal subsidies to states that do not take action to minimize such practices. (Downs 1991; U.S. Advisory Commission 1991). Michael Schill (1992b) has argued that such initiatives, while legally feasible, are unlikely to make much political headway unless the suburbs are coopted with a significant payment of federal funds.

A more likely possibility would be to greatly expand the availability of housing vouchers or "allowances" that would permit low-income households to leave the ghetto if they wished to. During the 1970s, Congress spent approximately \$150 million to conduct an enormous social experiment known as the Experimental Housing Allowance Program ("EHAP"). (Lowry 1983; Friedman and Weinberg 1982; Bradbury & Downs 1981; Struyk & Bendick 1981). The findings of the different EHAP experiments were, in broad outline, quite consistent. They indicated that recipients of housing allowances ended up with decent quality housing and used almost all of the allowance to reduce the burdens of rent on their overall budget. Moreover, additional housing consumption did not stimulate rent inflation, at least in markets with a vacancy rate of at least five percent. In markets with such a vacancy rate, suppliers redistributed vacancies and made improvements to existing dwellings. (See also Weicher 1990).

Since EHAP, the most extensive study of the effects of housing vouchers on the employment opportunities of ghetto residents has been undertaken in connection with the Gautreaux Assisted Housing Program. The Gautreaux program was created through a consent decree in the aftermath of a judicial finding of widespread discrimination in Chicago's public housing program. (Warren 1988). It gives applicants for public housing a choice among up to three homes in either the city or the suburbs. (Schill 1992a).

A research team has undertaken a series of studies comparing those households that took advantage of the Gautreaux program to leave Chicago with those that remained in the city. (Rosenbaum 1991; Rosenbaum & Popkin 1991; Rosenbaum, Kulieke & Rubinowitz 1988). Gautreaux participants who moved to the suburbs were 14% more likely to have a job than those who remained in the city, even though there was no difference in the average hourly wage obtained by workers in the two groups. (Rosenbaum & Popkin 1991). While the magnitude of the effect is not enormous, it is

substantial enough to justify continued support for the use of housing vouchers as an employment enhancement program. Moreover, other studies seem to find even greater effects along other dimensions, such as the level of children's school achievement and overall "neighborhood satisfaction." (Rosenbaum et al. 1992; Schill 1992a). Certainly the national urban policy agenda should expand the availability of Gautreaux-style housing vouchers, so as to improve families' ability to compete in the housing market (subsidizing increased construction where necessary to maintain adequate vacancy rates).

3. Beyond Mobility -- Alternative Empowerment Zones and Public Sector Employment

Policymakers should appreciate that even the most aggressive pro-mobility strategy will inevitably be incomplete. For even if people are given broader opportunities to move out into the labor market, they may not choose to take advantage of them. Movement almost always involves costs. Old friendships and sources of informal support suffer; it takes effort to establish new ones. For some people, those costs may prove more important than the new opportunities that moving might bring.

Undoubtedly some people will be tempted to say that no further public action is required once everyone has been offered a meaningful opportunity to move. But such a response is too glib. For the justification for public action is not merely one of individualized compensatory justice. Rather, it is that, by hypothesis, certain neighborhoods are the scenes of interacting externalities whose synergistic harms to the community as a whole exceed the sum of their harms to individual citizens.

What approach should policymakers take to intervening in poor urban neighborhoods? Return for a moment to the theme of trust. Suppose that a group of young adults in a neighborhood share a growing distrust for the formal job market. Suppose that their environment offers them few examples of adults who have held down jobs that pay a wage adequate to keep them out of poverty. Suppose further that out of frustration and boredom they become actively engaged in predatory crime within their neighborhood. The increased crime drives away the retail businesses that help to make neighborhoods attractive and drives away neighbors with the financial ability to support neighborhood institutions. A downward spiral ensues. (See Blakely 1989; Wilson 1987; Myrdal 1957).

What is called for is a set of policy interventions designed to break the downward spiral. More effective police services might help. But it would also seem essential to provide young adults with reason to believe that they can achieve an acceptable level of material prosperity through lawful work. To reverse the spiral, one needs to combine lower crime rates with higher neighborhood income, to enable the restoration of commercial and social anchors that act as stabilizing forces for a community.

Unfortunately, there are no sure-fire policy interventions guaranteed to accomplish those goals. We still need to experiment, to continue our groping for policy configurations that work.

This past summer, the Congress enacted legislation calling for experimentation with six urban empowerment zones and three rural empowerment zones. One of the most significant aspects of that legislation is the requirement that local governments nominate agencies and submit a strategic plan that would include

direct public investments in the region and indirect support for private for-profit and nonprofit institutions to do likewise. That legislation creates new federal subsidies for new private sector economic activity, as long as that activity takes place within the targeted depressed neighborhood. In particular, it authorizes a 20-percent employer wage credit for the first \$15,000 of wages paid to a zone resident if the zone resident works in the zone.

I would propose that the Congress go further now and authorize experimentation with what I shall refer to as "alternative empowerment zones" (AEZ's). The AEZ's would be quite similar to empowerment zones but would differ from them in theoretically significant ways. If Congress were to create six urban AEZ's and three rural AEZ's, we would be able to gain valuable comparative data on the strengths and weaknesses of these forms of intervention.

Let me elaborate. The AEZ program I propose would concentrate on employment. And it would attempt to rebuild trust. It would reach out to alienated workers by subsidizing private sector employment and by guaranteeing public sector employment as a fallback. It would incorporate two kinds of employment stimulus: a private sector AEZ tax credit and an AEZ guaranteed jobs program.

The AEZ tax credit would give any private sector employer who hired an AEZ resident a nonrefundable tax credit equal to 20% of the first \$15,000 of the worker's wages each year. This is just like the empowerment zone tax credit with one crucial difference. The AEZ tax credit would not require that the worker carry out job activities within the AEZ. Instead it would require only that the worker be someone who had not been employed during the six-month period before he or she obtained the job. Why not require the worker to perform work in the zone? Because I know of nothing in the theoretical literature to suggest that such a requirement is of any particular benefit to anyone. If the aim is to help people who have been cut off from the workforce, we should not care where they work. We should only care that they have been cut off.

Our experience with the Targeted Jobs Tax Credit suggests that the AEZ tax credit alone might well not be enough to trigger a surge in AEZ employment. The TJTC has had a notoriously low take-up rate, in part because some employers have viewed potentially eligible employees as stigmatized. While the AEZ tax credit should, in theory, be somewhat less stigmatizing than the TJTC, I would supplement it with a public sector guaranteed jobs program for AEZ residents.

In recent years, David Ellwood, Philip Harvey, and Mickey Kaus have all argued for different variants of a massive, nationwide guaranteed public sector employment program. I do not believe the case has been made for jumping into such an effort with both feet. But I do believe the case has been made for some serious experimentation.

Guaranteed public sector jobs programs have traditionally been analyzed under the heading of "public service employment" ("PSE"). PSE proposals must contend with at least four types of criticism:

- (1) The jobs will be "bad jobs" -- worthless, unfulfilling, unable to provide workers with transferable skills.

(2) The jobs will "substitute" for jobs that would otherwise exist, perhaps even replacing high-paying jobs with low-paying ones.

(3) The jobs will go to the non-needy because of "creaming" or patronage abuses.

(4) The jobs will be more expensive than they are "worth." PSE positions might have some value and might create some net new employment opportunities, but not enough to justify the overall cost.

Some sense of the weight to be given these objections can be gained from the most recent federally funded PSE programs. After the large-scale Works Progress Administration projects of the 1930s, the most substantial experience with PSE in the U.S. came during the 1970s, in the form of the Emergency Employment Act of 1971 and its successor the Comprehensive Employment and Training Act of 1973 ("CETA"). CETA was administered in the form of federal grants to local government "prime sponsors" (state governments in the case of rural areas) which in turn established the PSE positions. In response to complaints of "overcentralization" in prior education and training programs, most authority for planning and managing the programs had been delegated to state and local elected officials. (Mucciaroni 1992: 153).

In its early implementation, CETA was subjected to all four types of criticism noted above. Just as significantly, the program's reputation was badly damaged when the national press published a series of stories describing some of the more outlandish local projects such as the infamous "nude sculpting workshop." (Mucciaroni 1992; Baumer & Van Horn 1985). Accordingly, when CETA was reauthorized in 1978, it was amended in significant ways. Advisory groups called "private industry councils" were established to increase the role of the private sector and thereby improve placement rates. Wages were lowered to minimize the likelihood of creaming. The duration of PSE positions was limited so as to minimize fiscal substitution. And strict new penalties were combined with heavier-handed centralized administrative control, to combat fraud, waste, and abuse.

CETA was not subjected to experimental, random-assignment evaluation, and the econometric evaluations yielded varying conclusions. Nonetheless, the evaluation literature suggests that even before the 1978 amendments, PSE was providing significant long-term earnings increases for white and minority women participants, although not for men. (Barnow 1987; Bassi & Ashenfelter 1986; Bassi 1983). Rough efforts to undertake more comprehensive cost-benefit analyses were also encouraging. (Franklin & Ripley 1984: 198). Moreover, the 1978 reforms provided effective responses to the most concrete criticisms outlined above. (Baumer & Horn 1984; Mirengoff et al. 1982; Mirengoff et al. 1980). For example, with regard to "creaming," by 1980 as many as 92% of new PSE enrollees were low-income workers.

Unfortunately, those same 1978 amendments helped to undercut the program's political support. More intrusive bureaucratic fraud-prevention efforts meant heavier administrative burdens for local governments. Furthermore, stricter targeting and lower wages meant that the jobs were more likely to be "bad jobs" in two senses -- they were less likely to produce genuine value for the local government agencies and they were less likely to yield

a worker who could make an easy transition to the private sector. (Mucciaroni 1992; Franklin & Ripley 1984; Baumer & Horn 1984). And the earlier scandals had forever tainted the program in the public mind. When Ronald Reagan was elected on a platform dedicated to shrinking the size of the federal budget, it was only a matter of time before the program was eliminated and replaced by the Job Training Partnership Act, which explicitly precludes the use of its funds to pay for public service jobs.

CETA left a legacy of skittishness about public service employment. On the one hand, it appears feasible to run a decentralized PSE program that is popular with local officials, provides a form of revenue sharing, and (in part by "creaming" the pool of eligibles) produces alumni who can make a successful transition to the private sector. On the other hand, such a program would not in any way respond to the need to reach out to marginalized workers in areas of concentrated poverty.

More ambitious guaranteed public job proposals along the lines suggested by Ellwood, Harvey, or Kaus would respond more directly to those concerns. All propose relatively universal programs where "creaming" would be impossible. Unfortunately, all three proposals must confront a serious political problem noted by Harvey. Americans have deep ideological concerns about the size and scope of government. While they may endorse guaranteed job proposals when responding to surveys, in practice the logic of limited government has trumped the logic of the work ethic and economic opportunity.

The AEZ guaranteed jobs program I propose would try to walk a fine line between these dangers. It would directly address the target population of AEZ residents, but would be universally available to those residents, so that creaming would be impossible. Because it would be limited and experimental, however, it should be compatible with the general sentiment for limited government.

The CETA experience gives reason to be concerned about the risk that local political priorities might overwhelm and distort the program. To minimize that risk, the AEZ guaranteed jobs program should be federally funded and administered, along the lines of the Works Progress Administration of the New Deal.

Perhaps the trickiest problem associated with designing a guaranteed jobs program involves choosing what wage to pay program participants. Flat wage proposals such as Kaus's and Ellwood's would seem to offer workers little reason not to shirk on the job. But Harvey's "market wage" proposal could lead some workers to forgo private sector opportunities, thereby increasing program costs and passing up options that, at least in American society, might provide a better stepping stone to long-term employment. Accordingly, I would propose experimentation with a "compressed wage scale" for participants in the AEZ guaranteed jobs program. The scale would start at the minimum wage and go up, but would be designed with the goal of maintaining a genuine incentive for participants to seek out and accept private sector opportunities for which they have the appropriate skills.

To avoid the perverse effect of undermining the mobility of AEZ residents, it would be necessary to maintain "transitional" eligibility for AEZ "benefits." Consider a hypothetical worker who takes an AEZ guaranteed job and then moves to a private sector job, thanks in part to the private sector AEZ credit. Suppose she is able to save enough money to move to a safer neighborhood in the city, and that she would like to do so. In

order to allow her to do so, the AEZ program would provide that, for one full year after moving, she would retain full eligibility to participate in the guaranteed jobs program and to qualify an employer for the private sector tax credit. The employer tax credit would be phased out during the succeeding two years.

I would propose that AEZ's be designated in the same manner as empowerment zones, using the same criteria, to provide maximum comparability for researchers who will evaluate their success. In particular, I would stress the importance of requiring nominating governments to submit a strategic plan that will allow the federal subsidies to be integrated in state, local, and community-level efforts at revitalization.

Conclusion

In the early 1990s, concerns about the plight of the urban poor have led to increasing interest in devoting substantial public resources to the needs of the urban poor. In this testimony, I have suggested that we organize our responses to that interest around the themes of employment, trust, and mobility.

I have suggested that long-term and short-term policy responses to urban poverty should proceed simultaneously on three fronts. The first front involves direct mobility constrictions that take the form of racial discrimination in employment. As part of the long-term response to those constrictions, policymakers and citizens generally need to be educated about the ongoing role played by direct racial discrimination in employment -- particularly the variant known as "statistical discrimination." And over the next few years, it is important to monitor how the changes made by the Civil Rights Act of 1991 are implemented.

The second front involves indirect mobility constrictions that may flow from residential segregation. Here the long-term response should include improvements in public transportation and job information networks, and it should include intensified enforcement of laws against discrimination in housing. Perhaps most significantly, it should include expansion of the provision of housing vouchers to low-income families living in depressed urban neighborhoods.

The third front involves policies addressed to the needs of people who cannot or will not move. The Alternative Empowerment Zone proposal is an idea for providing a short-term response to the lack of meaningful employment opportunity in depressed neighborhoods. The proposal combines three elements: (i) private sector tax credits, (ii) guaranteed public jobs, and (iii) a strategic plan that commits local governments to interventions that will complement the federal subsidies.

But I would like to conclude my testimony in the way I believe any discussion of an urban policy agenda should conclude: by returning to the three cautions with which I began. Action along the three fronts I have described cannot, standing alone, do much to respond to the broad array of problems confronting the urban poor. National policies of macroeconomic stimulation, human capital development, health care, and income support are likely to remain far more significant. Yet there is now evidence to suggest that, even after all those other policies are in place and fine tuned, more can be done to address the needs of America's urban poor. We need to invest in experiments that will help us know what kinds of interventions will be most effective.

Mr. KOPETSKI. Thank you, Dr. Lehman. You may want to look at some of the targeted jobs tax credit program. Quite frankly, we ran out of money and your idea of blending some of these programs so that you have the individual that has some tax benefits, if you will, they can take to the employer in one of these enterprise zones, that that is the way we ought to do it.

I think we will have a couple of hundred experiments going on in the country and I encourage people interested in this area to monitor how a block of these work and what works and what doesn't work so that we can expand, hopefully, these kinds of programs.

Mr. LEHMAN. Absolutely, and I would direct your attention to the section of my chapter that reviews the research literature on the targeted jobs tax credit.

Mr. Myers, welcome. Also your testimony will be put in its entirety into the record.

**STATEMENT OF SAMUEL L. MYERS, JR., PH.D., ROY WILKINS
PROFESSOR OF HUMAN RELATIONS AND SOCIAL JUSTICE;
HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS,
UNIVERSITY OF MINNESOTA**

Mr. MYERS. Thank you very much, Mr. Chairman. I am pleased to testify today on an important and often overlooked aspect of the family income and poverty problem detailed earlier today. This is the problem of widening racial inequality. The evidence that we must confront is that the ratio of black to white family median incomes is lower in recent years than it was in the late 1960s.

That is to say, on average, black families as compared to white families are worse off today than they were more than a quarter century ago. We need to understand why and we need to know what we can do about it. This is what my colleague, Professor William Darity, at the University of North Carolina and I have spent the past 10 years examining, and this is one of the core research areas of the University of Minnesota's Roy Wilkins Center for Human Relations and Social Justice, which I direct.

Let me briefly try to summarize five of the main conclusions of that research that Professor Darity and I have obtained. First, we find that there has been a widening of the gap between those at the top and those at the bottom of income distribution, but most of that widening is attributable to blacks at the bottom becoming worse off and whites at the top becoming better off.

Second, we document the deleterious effects of the rising percentages of black families headed by females on the incomes of blacks. Surprisingly, however, we are unable to attribute much of the widening of earnings gaps between black and white families to this rise in black female-headed families. More important are the deleterious impacts of the growth in younger, less well-educated family heads who happen to be disproportionately black and female.

Third, we also find little support for the notion that welfare and public assistance payments have contributed to the widening of the gap in incomes. This is the popular idea that the expansion of welfare during the 1970s contributed to the rise in black female-headed families. Not only do we not find support for this view, we do not find much support for a similar view that welfare-induced labor

market withdrawals contributed to the decline in black labor incomes.

Fourth, we uncover alarming evidence of the substantial deterioration in the relative economic position of young black males and this is statistically related to the rise in black female-headed families. We do not find that this is the sole cause of the increase in black female-headed families. Nevertheless, the evidence concerning what happened to young black males is so alarming that we think it is worth dealing with even if it is not the sole source of the destabilization of black families.

Fifth, additional evidence points to the deterioration in the social and economic position of better educated blacks. For example, even better educated families among blacks are disproportionately headed by females. Thus, we cannot conclude that the problem lies with blacks at the bottom alone. Our own empirical assessment is that much of the widening of racial gaps in earnings among family heads is due to unequal labor market outcomes faced by similarly situated whites and nonwhites.

This all adds up to one startling conclusion: Black families are worse off relative to white families than they were in the 1960s. Specifically the ratio of black to white median incomes was lower in 1990 than it was 25 years ago.

What can be done? We conclude that much of the deterioration in the position of black families may be the result of retrenchment in public support for policies aimed at improving the lot of racial minority group members. These policies include equal opportunity in education and in employment, vigorous enforcement of anti-discrimination laws, and affirmative action strategies. But it may be impossible to reimplement these race-based remedies in an era where white households are losing ground.

This is my central message. Just at the very moment in our history when we are observing a deterioration in the economic position of an historically important segment of our population, we have moved as a Nation away from support for direct policies designed to improve their lot. Unfortunately, there is no assurance that indirect methods, things that I call nonrace-based remedies, will have the effect of reducing racial inequality. Many of the policies that ought to work to reduce historical legacies of racial inequalities, such as set-aside programs, affirmative action programs, will fail an important new litmus test that many Americans consider to be reasonable, and that is that we should not make one group worse off in order to make another better off.

I wish that I could conclude my testimony with a blueprint for resolving this dilemma. I wish I could tell you that Mr. Darity and I have discovered the magic bullet for solving the racial inequality problem. We have no such blueprint nor magic bullet. But at minimum, we hope to place this issue before you for public debate and we hope that one effect of our collective acknowledgment of the severity of the problem of widening racial inequality is that we as Americans will commit ourselves to solving this problem once and for all.

[The prepared statement follows:]

STATEMENT OF SAMUEL L. MYERS, JR.,
HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS,
UNIVERSITY OF MINNESOTA

Mr. Chairman, members of the Subcommittee on Human Resources of the Committee on Ways and Means, I am pleased to testify today on an important and often overlooked aspect of the family income and poverty problem detailed in recent Census reports. This is the problem of widening racial income inequality. The disturbing evidence that we must confront is that the ratio of black to white family mean incomes is lower in recent years than it was in the late 1960s. That is to say, on average, black families as compared to white families are worse off today than they were more than a quarter of a century ago. We need to understand why. And, we need to know what can be done about it. This is what my colleague, Professor William A. Darity, Jr. of the Department of Economics, University of North Carolina and I have spent the past 10 years examining. And this is one of the core research areas of the University of Minnesota's Roy Wilkins Center for Human Relations and Social Justice, which I direct.

The information that we must confront when examining the historical trends in growing inequality in family incomes is that the rich have gotten richer while the *black* poor have gotten poorer.¹ That is, much of the widening gap between blacks and whites is due to the deterioration in the position of the poorest of blacks. We must also confront evidence, however, that even well-educated blacks are facing distress. Thus, policies that ignore the continuing racial dimension of the family income inequality problem may contribute to the worsening of the problem in future decades. I will not present a blue-print for solving this problem. Rather I will outline the dimensions of the problem so that we can begin a new dialogue about remedies for this festering dilemma of poverty in the face of plenty.

Background

The data presented earlier today by the U.S. Bureau of the Census confirms the much discussed fact that during the 1980s the rich got richer and the poor got poorer. The reasons for this include the changes in the tax laws, the deregulation of many industries, the expansion of banks into risky investment vehicles, the reduction in real welfare benefits and related social programs, the decline in federal support for state and local investments in poverty-reduction efforts and so on. In other words, the rich got richer and the poor got poorer because of the public policies of the 1980s that favored the rich and disfavored the poor.

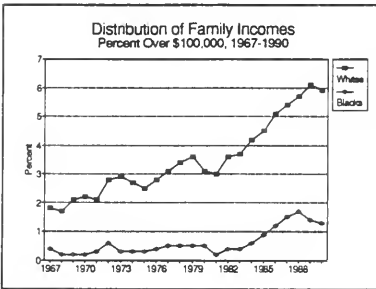


Figure 1

What has not been as adequately discussed, however, is the racial disparities inherent in the numbers that tell us that the rich got richer and the poor got poorer. The numbers are all readily available from the various publications of the Bureau of Census's Current Population Reports. And what they show is that the refrain should be: "The rich got richer and the *black* poor got poorer."

In 1967, 2.9 percent of white families had real incomes less than \$5,000 in 1990 dollars. Ten years later, 2.1 percent of white families had incomes below \$5,000. And, by 1990, 2.5 percent of white families had incomes below \$5,000, the same percent as in 1967. The percents for the intervening years all fall within the range of 1.9 percent to 3 percent. Thus, for the entire period of 1967 to 1990—a span of an entire generation—there was little change in the proportion of white families that were truly poor and disadvantaged.

Of course there were substantial changes in the percentages of whites who were advantaged. The proportion of white families with incomes in excess of \$100,000 in real dollars soared from less than 2 percent in 1967 to almost 6 percent in 1990. Just during the 1980s this well-off fraction of the white population expanded from around 3 percent in 1980 to 6.1 percent in 1989. The white rich got richer.

The black rich, representing a correspondingly smaller percent of the black population, also got richer. Four-tenths of one percent of black families had incomes above \$100,000 in

¹The empirical results reported in this statement are from the forthcoming book, *The Problem of Racial Economic Inequality: Trends and Prospects* by William A. Darity, Jr. and Samuel L. Myers, Jr. Support for this research is gratefully acknowledged from: the Upjohn Institute; the Institute for Research on Poverty, University of Wisconsin; the University of Maryland, College Park; and the Humphrey Institute, University of Minnesota.

1967; five-tenths of one percent of black families had incomes above \$100,000 in 1980. By 1990, however, 1.3 percent of black families had incomes in excess of \$100,000. So, the black rich got richer too. This is all seen in Figure 1.

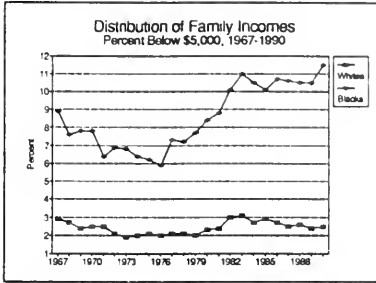


Figure 2

economic ladder in American society. And as Figure 2 shows, the widening in the gap between blacks at the bottom and whites at the bottom continues into the 1990s.

Causes of the Widening Racial Gap

Is this decline solely the result of the rising fraction of black families with female heads? And is the rise of female-headed families among blacks the result of increased incentives to form single-parent families as a result of public assistance policies? The answer is no to both questions. Most of the gap in earnings between black and white family heads is the result of racial differences in the deleterious effects of being a young, uneducated family head. It is not simply that blacks are more likely to have families headed by females; the problem is that black female-headed families fare less well than white female-headed families do. Controlling for welfare incomes, age, education, and a host of other factors, we estimate that a one percent rise in the probability that a black family is headed by a female reduces labor force participation of the family head by five times as much as it reduces white labor force participation rates. We find even larger negative effects of blacks having younger family heads.²

Another way to look at why the rise in female-headship among blacks is not the cause of the widening racial disparities between black and white families is to note that it is not just poor, young, uneducated families that are increasingly headed by females. Even African American families with well-educated heads are increasingly headed by females as well. As Figure 3 shows, there is a steep growth in female-headed families among families with college educated heads since 1970. In 1991, nearly 30 percent of black families with college educated heads were headed by females up from 8 percent in 1970. This compares to a rise in the percent of white families headed by females among college graduates, which rose from 4 percent to 8 percent from 1970 to 1991.

There is also little support for the view that the cause of the rise in black female-headed families is the attractiveness of welfare. The percent of black families headed by females continues to rise long after the growth in real AFDC benefits has come to a halt.

Time series evidence for the period of the most dramatic rise in black female-headed families, from the 1950s to the early 1980s, clearly refutes this hypothesis. During the era of the most steep climb in the proportion of black families headed by females, real welfare benefits were declining. Welfare could not have been the cause of the rise in female-headship among black

Female-Headship Among Better Educated Black Families, 1970-1991

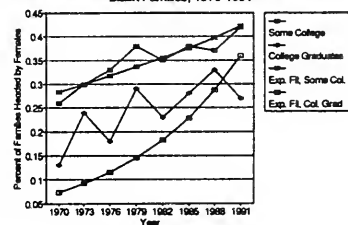


Figure 3

²See, William A. Darity, Jr. and Samuel I. Myers, Jr., "Black-White Earnings Gaps Have Widened: The Problem of Family Structure, Earnings Inequality, and the Marginalization of Black Men," *AASP Working Papers*, University of Maryland, 1990.

families.³ Cross section data also cast doubts on this hypothesis. Although there is a positive relationship between the probability that a black family is female headed and expected welfare income, the elasticities are small and the overall impacts on family breakup are often statistically insignificant.⁴

What looms behind the numbers showing that blacks at the bottom are becoming worse off? Part of the answer is related to the deterioration in the position of young black males—the fathers of the children who are now disproportionately living in female-headed families and in poverty. The relative earnings position of young black males with little education deteriorated substantially. In 1970, for every dollar that a white male under 25 years of age who had not graduated from high school earned, similarly situated black males earned \$1.11. By 1988, this advantage disappeared completely. For every dollar young, uneducated white males earned, blacks earned only 35 cents. Overall, however, the ratio of wage and salary earnings of black males to the wage and salary earnings of white males improved from 1970 to 1988. It was .62 in 1970 and .63 in 1988. Thus, the experiences of young black males diverged from those of black males generally. In particular, the ratios of black to white earnings for males 25 to 40 years of age and for those over 40 both showed stable movements over the span of the 1970s and 1980s. The widening of the racial earnings gap between young black and white males was not uniform across all educational levels among men under the age of 25. There were sharp drops in the ratio for high school dropouts. There were dramatic increases in the ratio for college graduates. But since college graduates represent a relatively small pool of men among young black males, the deteriorating position of black high school drop outs works to dominate the average for all young black men. Thus, there is a widening gap between young black men with little education and both young white men and young black men with college educations. There is not a corresponding gap between uneducated young white males and educated young white males. Or put another way, although the ratio of black high school drop outs' earnings to black college graduates' earnings declined, this was not a part of a general pattern of the decline in the earnings of high school dropouts, and therefore a problem distinct from the racial inequality problem. Instead, it was a problem unique to young black men.⁵

The problem of widening racial economic inequality, however, is not limited to the labor market. Adding to wage and salary earnings incomes from self-employment, farming, interest, rents, dividends, royalties, and government transfers yields a similar but slightly larger gap between blacks and whites. As can be seen in Figure 4, the ratio of black to white family income in 1990 was below what it was for every single year from 1967 through 1980. The three-year average of the ratio of black to white mean family incomes centered on the year 1970 was .6418. Centered on 1973, it was .6304; centered on 1976, it was .6396; centered on 1979, it was .6337. And yet, the three-year averages of the ratio of black to white mean family incomes never rose above .6190 after 1982.

Even larger gaps between blacks and whites are found in assets holding and wealth. While black families may receive about 60 cents for every dollar of income whites receive, they hold 7 cents of wealth for every dollar of wealth held by whites. That is why the earnings gaps and the income gaps severely underestimate the broader gap in social and economic well-being

³William A. Darity, Jr. and Samuel L. Myers, Jr. "Does Welfare Cause Female Headship? The Case of the Black Family," *Journal of Marriage and the Family* 46 (November 1984): 765-779.

⁴William A. Darity, Jr. and Samuel L. Myers, Jr. (forthcoming) *The Problem of Racial Economic Inequality: Trends and Prospects*.

⁵The ratio of wage and salary earnings of black males, under 25 without high school diplomas to the wage and salary earnings of black males, under 25 with college degrees declined from .23 to .05. That is, the advantage young black males with college degrees enjoyed over young black males without high school diplomas zoomed from incomes four times greater than that of their less well-educated brothers to incomes twenty times greater. There is a similar advantage enjoyed by young, well-educated white males over the less well-educated young black males. But yet, there is no such increase in advantage that young educated white males enjoy over young uneducated white males. The ratio of earnings between the two remain constant throughout.

Thus, the deteriorating relative position of young black males with little education is not the sole result of educational deficiencies. White males did not experience a similar deficit over the years. Neither, however, is the culprit race alone. Young black males with college educations—numerically a small proportion of the black population—registered impressive gains in incomes over the decades. By the end of the 1980s, a young black male with a college degree earned more than a young white male with a college degree.

between blacks and whites.

Solutions to Racial Economic Inequality

With this backdrop of evidence on widening racial economic inequality that looms behind the aggregate statistics on increased poverty and income inequality in America, let me now turn to strategies for reducing the racial economic inequality. The range of strategies for reducing racial economic inequality runs from those that seek direct redistribution of income and wealth via involuntary transfers from whites to blacks to those that attempt to expand the entire economic pie and thus improve the absolute welfare of blacks without necessarily reducing the relative gap in welfare between blacks and whites.

Reducing racial economic inequalities in the 1990s comes during an era when there is increasingly hostile opposition to the adoption of redistributive measures that ostensibly make one group better off at the expense of making another group worse off. For example, there is virtually uniform opposition among whites in the United States to the adoption of quotas or other racial preferences in hiring or employment that favor blacks and other racial minority group members.⁶ The majority may argue in favor of equal opportunity, but when it comes to taking something away from them to give to others—who sometimes appear to be undeserving of help—they insist the line must be drawn, so to speak.

It is for that reason that many moderate politicians contend that the best hope for reducing racial inequality is to find remedies that are fair to the majority while offering hope of improving the well-being of the minority. These are thought to be non-race based remedies because they can improve the well-being of the minority without consciously making the minority better off at the expense of making the majority worse off.

Some will call these non-race based strategies "race neutral" but this is a misnomer. The policy would only be race neutral if it left the underlying distribution by race unaffected—such as a policy that increases overall income or output but leaves black and white shares of income or output unaffected. Arguably blacks would be better off in the absolute sense from such expansion of economic prospects but they would be no better off in the relative sense. What is meant by a non-race-based remedy is one that has no race criterion in its application although it may nevertheless result in an increase in the well-being of the minority relative to the majority.

Thus, it is important to make the distinction between policies that are race-neutral in the sense that they are known to have or are expected to have no impact on the relative distribution of rewards and those that are non-race-based, meaning that they can in fact have a positive or negative effect on the relative distribution of rewards but not at the expense of specifically entitling racial minorities in preference to racial majorities. This distinction helps to demarcate pragmatic centrists and the traditional conservatives. Many traditional conservatives and most neoconservatives question the basic desirability of further reducing the gap between blacks and whites. After all, much of the savings behavior from high earners that must be counted on in order to spur economic growth and finance investment comes about because of the wide inequalities between the top and the bottom. Pragmatic centrists, like Clinton advisor and Nobel Laureate, Robert M. Solow, argue, in contrast, that racially unequal outcomes are neither necessary nor desirable for economic growth.⁷ But they also argue that the real task of the policy

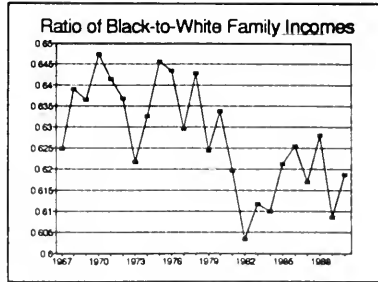


Figure 4

⁶According to the Gallup Poll, 7% of whites and 29% of non-whites supported Affirmative Action in 1981. George H. Gallup, ed., *The Gallup Poll: Public Opinion 1981* (Wilmington: Scholarly Resources, Inc., 1982). These figures changed little by 1991; nationally 11% favored Affirmative Action, 8% of whites did, and 24% of blacks did. Furthermore, 55% of Americans believed the U.S. had enough laws aimed at reducing discrimination. George H. Gallup, ed., *The Gallup Poll: Public Opinion 1991* (Wilmington: Scholarly Resources, Inc., 1992).

⁷Robert M. Solow believes a source of doubt and discouragement regarding the current economy is the widening inequality in income distribution. Solow states "a policy of investment in human capital could choose to aim at bringing up the lower tail of that distribution. That would certainly reduce inequality and there is also a possibility that it might favor growth." "Growth With Equity Through Investment in Human Capital," The George Seltzer Distinguished Lecture, Industrial Relations Center, University of Minnesota (1992), 16.

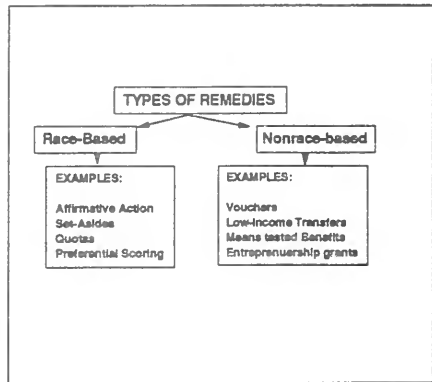
maker is to improve the economic performance of the economy so as to make the size of the pie larger, even if the price we pay is to leave the distribution of the pie unchanged. Such policies as improved investment in human capital inevitably will generate larger benefits to the young and disadvantaged, many of whom are members of racial minority groups. Yet, such a result is neither assured nor intended by the non-race based strategy of improved investment in human capital. The strategy supposedly works because it assures improved absolute positions of minorities even if the relative position is uncertain.

This is in effect the problem of the post-1970s: the relative position of blacks at the bottom deteriorated even as the fates and fortunes of many other blacks at the top improved. During good times and bad the position of blacks at the bottom either deteriorated or failed to improve. Thus, non-race-based policies—like the expansion of economic growth—hold no assurance that blacks at the bottom will move up.

But what about race-based strategies? Much of the opposition to race-based strategies comes from the belief that certain race-based strategies understood to include not just equal opportunity laws but the regulatory and enforcement efforts designed to achieve equality of results through affirmative action, racial preferences, and even quotas and set-asides, have not achieved the desired result of reducing racial inequality. Thus, the problem then is not just that the race-based strategies are unfair, but that they are also inefficient.

The most prominent perspective Table 1

on the inefficiency of race-based strategies comes from a school of thought that might be called the "minority conservative" school. Adherents include Shelby Steele, Glenn Loury, William Julius Wilson, as well as more confirmed traditional conservatives like Walter Williams and Thomas Sowell.⁸ The important and apparently valid empirical point is that the beneficiaries of race-based strategies largely have been middle-class or better educated blacks.⁹ The strategy of making the highest earners among blacks better off arguably has the short term impact of reducing the observed earnings gaps between blacks and white. But, if the low earners are in fact made worse off—because it reduces their incentive to self-invest or creates some other perverse incentives—then the impact could well be to contribute to a widening of the overall gap in incomes between the races.



In a convenient and simplistic way, it is useful to conceptualize two broad categories of remedies to racial inequality: race-based and nonrace-based. The vast majority of Americans are opposed to race-based remedies. Table 1 sketches some examples of these two broad categories of remedies. On the race-based side are affirmative action, set-asides, quotas and various forms of preferential scoring. On the nonrace based side are various forms of assistance generally to low income persons but also to businesses that are designed to aid those at the bottom and which may have the impact of disproportionately benefiting blacks: these include educational vouchers, income transfers and grants for entrepreneurship development. What should be clear from this simple distinction between race-based and nonrace-based remedies is that they attack implicitly the problem both of interracial and intraracial inequalities in different ways. The race-based remedy focuses, ostensibly, on results. It hopes to achieve some degree of reduction in inequality by directly using the observed racial gap as the yard-stick for movement towards equality. Thus, if blacks only have 1.3 percent of all of the state's contracts for providing

⁸See Shelby Steele, *Content of Our Character: A New Vision of Race in America* (New York: St. Martin Press, 1990), Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: W. Morrow, 1984), and William Julius Wilson, *The Declining Significance of Race* 2nd ed. (Chicago: University of Chicago Press, 1982).

⁹Some argue women are the biggest gainers from affirmative action and that these gains are being made at the expense of black men. Anthony J. Cortese, "Affirmative Action: Are White Women Gaining at the Expense of Black Men?" *Equity & Excellence* 25 (Winter 1992): 77-89.

janitorial services, a minority business set-aside program that sets as a goal a black share of 10 percent of all contracts, seeks to narrow the gap explicitly and directly by providing more contracts to blacks. A nonrace-based remedy--such as entrepreneurial training for the disadvantaged--hopes to create equality of opportunity among a class of persons, without regard to race, who are willing and able to contract with the state. This class may include poor white as well as minority businesses. The entrepreneurship training program might disproportionately benefit blacks but it is not reserved for them.

There are many real world policies that fall somewhere between these categories: targeting recruitment of minority scholars by dedicated visits to Historically Black Colleges and Universities; hiring goals, timetables and linkages of managers' performance to success in meeting "diversity" goals. Are these or are these not race-based strategies? For simplicity, we will describe these grey areas as being race-based when they seem to fall closer to reliance on race alone than completely rejecting race as a determining criterion for selection.

The only way to fully appreciate the degree of disagreement over the choice of race-based as opposed to non-race based remedies to racial inequality, is to acknowledge the two extremes of justifications for remedies in the first place. On one hand there is the retrospective inequity justification, which argues in effect that the remedy is a payment for a past wrong. The notion of reparations for slavery and deaths of Africans via the middle passage holds rests on a clear retrospective inequity justification. The other extreme is to justify remedies based on the contention that future inequities will make us all worse off. That is to say, we need to right the wrongs if we want to have a bigger pie tomorrow. This is the heart of liberal arguments in favor of diversity: there are efficiency gains by creating equality of opportunity for the next generation.

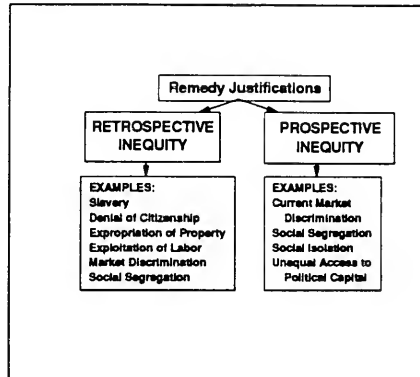
At first glance, these distinctions displayed in Table 2, seem to parallel the distinctions in Table 1. Race-based remedies can and indeed often do find their justification in retrospective inequities. And, those who justify remedies for racial inequality at all based on prospective inequities, frequently point only to non-race based remedies as the desired choice.

But not all race-based remedies rest solely on retrospective inequity justifications. Take, for example the issue of divestiture of monopolies to minorities or the award of television or radio stations to minority groups. This is an example of a race-based remedy using a prospective inequity justification. Richard America argues that anti-trust laws should be amended to make "social overconcentration" akin to other forms of monopoly power now regulated by the Sherman Anti-Trust act. The form of remedy would include divestiture of such monopolies to minority shareowners. His argument is that underrepresentation, just like monopoly control, is socially inefficient. Thus the state should rectify the inefficiency through regulatory actions.

What this idea suffers from is a lack of full anticipation of the likely dynamics of such a regulatory regime. Firms threatened with possible divestiture because of "social overconcentration" would presumably make visible although nonstructural changes in ownership to ward off possible litigation; they would certainly agree to negotiated settlements of increased minority ownership if such settlements prevented complete divestiture. The race-based strategy may improve minority ownership prospects, but it is unclear that it will bring increased efficiency--the initial justification for the remedy.

Reparations, in contrast, rarely are justified by anything resembling prospective inequities. They usually explicitly acknowledge retrospective inequities. In making his economic case for reparations, Robert S. Browne, founding editor of the *Review of Black Political Economy*, details some of the key elements of a reparation formula and an implementation plan necessary for the scheme to be successful. He argues correctly and quoting Myrdal that the absence of land reforms as a component of the emancipation of black slaves contributed to the subsequent persistent inequality of wealth. While this point is made to buttress his case for reparations, it is also a point worth examining as a source for alternative strategies for reducing racial economic inequality. In essence, what land reform would have achieved is the breakup of the existing feudal plantation system and the creation of small owner-operated agricultural enterprises among

Table 2



former slaves. Of course, what happened instead was the displacement of the slaves from the former plantations and the creation of three classes of agricultural workers among blacks: tenant farmers, convict lease workers, and marginal owners attached to unproductive land. Ultimately, the effect was to drive many blacks with the slightest amount of education and/or entrepreneurial acumen out of agriculture and into provision of services to other largely segregated blacks. This contributed in part to the rise of a small, black, rural aristocracy in the south. Browne sees the absence of land reform as a failure to redistribute wealth. An alternative interpretation is that lack of land reform meant wealth inequality rose within the black community.

In discussing two familiar strategies for justifying affirmative action programs, Hill claims: "Forward looking" appeals exclusively to the good results expected from such programs; the other, 'backward-looking,' focuses on past injustice and demands reparations."¹⁰

This distinction is really a distinction between equity considerations and efficiency. Forward looking or expectation of good results usually means that the good result is a larger pie that in principle can result in increased consumption by both the minority and the majority. The policy is efficient in that it results in an increase in the consumption of one party without a corresponding reduction in the consumption of another. It may fail the efficiency test if the increased pie necessarily comes about by changing the shares of the pie consumed by the respective parties. But, even here some would adopt a criterion that asks whether the gains to the gainers exceed the loss to the losers so that at least in principle, redistribution can occur to relieve the distress of the losers and still leave the gainers better off.

The backward looking strategy, on the other hand, is explicitly a redistributive one with no pretense of leaving the losers better off or no worse off before the reparations. Rather, the reparations are by design intended to rectify past wrongs and thus are expected to make the losers worse off. The question of fairness of this backward looking strategy comes from the recognition that the current beneficiaries of the reparations may not be the victims of the prior distress; and the current victims of the reparations may have been innocent beneficiaries of the previous discrimination or they may not have benefited at all.

The core of the reparations arguments, thus, rests on demonstrating the benefits that current generations of whites have accumulated as a result of prior discrimination against blacks. For otherwise, the reparations argument is flawed by the absence of guilty beneficiaries from previous discrimination and the presence of innocent victims should the reparations be extracted. Thus it is not good enough to show how much blacks lost from the slave trade; reparations theorists must show that whites gained and continue to benefit from the economic development that was supported directly by the slave trade.

An example of a non-race based remedy that has significant impacts on ownership prospects is worker ownership of firms. One such strategy discussed in the literature involves ESOP's (Employee Stock Option Plan). The advantages are that they provide workers in poor and inner-city areas with added incentives to increase productivity and thus to increase profitability of local businesses. Spillover effects can generate positive impacts on the minority community. It is not clear, however, whether these plans address the issue of intraracial inequality. Will gaps widen between workers and nonworkers? It is not obvious that it will reduce interracial inequality either. Squires finds wide variations in black/white wage gaps across a variety of ESOP firms; the mean B/W gap is about the mean in industries generally.

Now, there are race-based strategies that are clearly prospective. The justification is clearly an efficiency one. They hope to make blacks better off without making whites worse off. These strategies involve linkages between African Americans and Africa wherein African Americans gain ownership of property in the Motherland.

Two specific proposals evolved from the second African American Summit in Libreville, Gabon. These proposals evoke the type of remedy that hopes to achieve pareto efficient gains for black Americans through race-based remedies. They are all intimately linked to the idea of improving ownership and earnings prospects for African Americans via partnerships with Africans.

The first involves the use of dual citizenship in order to permit blacks in the United States to own and manage businesses and agricultural enterprises as residents of African states without having to renounce their United States citizenship. The key to operationalizing these special

¹⁰Hill makes the distinction between "forward looking, utilitarian" arguments in favor of race-based policies and "backward-looking, reparations" arguments in favor of race-based policies. Thomas Hill, "The Message of Affirmative Action," *Social Philosophy and Policy* 8 (Spring 1991): 110, N. 2.

benefits to African Americans who will be able to acquire valuable physical capital and fertile and highly rich agricultural land at below market rates is that they must be willing to offer some of their expertise and skills to help improve industry and technology in African countries. A skills bank would link talented African Americans with African countries in need of technical and managerial support.¹¹

The second and more controversial of the proposals was the idea of repatriation of African American prisoners. One version of the proposed idea was reported in this way:

"...[Nation of Islam Minister Louis] Farrakhan also proposed that African countries be willing to take some of America's black prisoners and allow them to develop areas in their countries, much like what was done with British prisoners in the development of America and Australia."¹²

One of the central aspects of dual citizen proposals is that it creates privileges by providing rights that the majority only secures within a single state. Such rights include the right to vote, the right to protection by the state, and economic security; the right to inherit or to hold real property.¹³ When a person holds dual citizenship in different democracies, the person gains new privileges above and beyond those held by citizens in each state. In the United States, for example, the right to vote in a local election is restricted to persons who reside--usually for some minimal period--in the location. Providing the right to vote in multiple jurisdictions, even when the person resides in both, in effect awards the person additional power beyond the one vote to which he or she has a right. The dual citizenship creates a new privilege.¹⁴ Much of the literature on problems of dual citizenship pertains to guest workers, such as Turks in Germany or Sudanese in Saudi Arabia. In the case of African Americans in Africa, it is not clear that whites will view the new privilege as a loss that they bear.

The Efficiency of Race-based Solutions

Can race-based remedies be efficient? In other words, is it possible to make blacks better off without making whites worse off using remedies that target blacks for improvement? In the previous example, the answer is yes only if whites do not believe that the dual citizen bestowed on blacks deprives them of some privilege.

It is easier to talk about efficient race-based remedies in the abstract than to speak concretely about these. Nonetheless, such has been the case particularly in university circles, for years. The argument is as follows: society is changing. Our ability to compete depends on our ability to produce a highly productive workforce that mirrors the social and demographic distribution of the more highly diverse populations of the world than the racially homogeneous populations of many advanced industrialized nations. To achieve diversity in the workforce, however, we must disproportionately allocate resources to the young and growing portions of the population, which for a variety of reasons happen to be disproportionately minority. Indeed, diversity enhances both the quality of the workforce and the productive capacity of the overall economy, according to this view.¹⁵

To some, this "excellence through diversity" perspective is a smoke screen for permitting the extension of affirmative action programs in the face of continued court and public opposition. That this perspective is frequently promoted within university settings may further implicate

¹¹William Reed, "The African, African-American Summit," *The Baltimore Afro-American*, June 12, 1993, A11.

¹²Ibid.

¹³See, Tomas Hammer, "Dual Citizenship and Political Integration," *International Migration Review* 19 (Fall 1985): 438-450.

¹⁴Mark Miller, "Dual Citizenship: A European Norm?" *International Migration Review* 23 (Winter 1989): 945-950.

¹⁵One need only look to *Nation's Business'* cover story, and many other journals and periodicals, "Winning With Diversity" to see that businesses are beginning to view diversity as an asset. Sharon Nelson, "Winning With Diversity," *Nation's Business*, September 1992: 18-24. Businesses have become aware of the fact that they can recruit excellent employees by looking beyond the traditional white male candidates.

universities in charges of attempting to promote "politically correct" strategies.¹⁶ But to others, it is a sincere attempt to justify redistributive policies on efficiency grounds: "We need to reduce -- the racial gap if we are to improve our ability to increase the size of the pie." Or, equivalently, "Whites benefit when nonwhites are made relatively better off."¹⁷

One of the major objections to race-based policies is that they do not work. Another objection is that they do not assure long-term reductions in racial inequality through wealth accumulation and capital transfers from one generation to a next. Ray Brooks makes both points in *Rethinking the American Race Problem*.

Brooks contends that existing civil rights laws and policies are the primary contributors to obstacles found by middle-class and working class blacks. He argues that "basic civil rights policy or 'formal equal opportunity,' which should be an instrument of promoting racial inclusion and equality, in fact has 'given little or no priority to specific civil rights interests of middle-class and working-class African Americans and...[has] reduced the opportunities available through law to effectively remedy the uneven distribution of societal hardships between races and class.'" He contends, "As they are currently interpreted and applied, then, civil rights laws and practices accommodate, prolong and intensify intra-class racial disparity."¹⁸

This conclusion is not supported by available evidence in schooling, housing, employment, or military enlistment which demonstrates the substantial, narrowing racial gap since the passage of the civil rights laws of the 1960s. But that does not deter Brooks from asserting the ineffectiveness of civil rights laws. He argues, moreover, that there are smaller negative impacts of civil rights laws on the poverty class. But, like Wilson, Brooks believes that the policy of racial integration contributes to the rise of underclass subcultures. Thus, civil rights cannot be relied upon to return to intra-class racial disparities. Brook's strategy is to promote self-help:

No amount of government intervention, with either economic or legal resources, will solve America's race problem unless it is combined with a strong private initiative on the part of African Americans - namely, self-help. African Americans must package an intensive, long-term program to prepare primarily the working class and poverty class, especially members of the underclass, to take advantage of government-created opportunities in employment, housing, and education. Once these vital socioeconomic resources become more accessible, African Americans must be mentally and behaviorally ready to compete aggressively for such resources. This book outlines a program of self-help that can respond to these needs.¹⁹

His justification for a black self-help strategy is that government will not act in the interests of blacks; the government cannot be counted on to reduce racial inequality. Thus, racial relations are not likely to improve. So blacks must fend for themselves.

Why do civil rights laws work against the interests of black middle class? Brooks says that "strict scrutiny" tests discourage affirmative action in public sector employment to remedy past discrimination in this sector. This curious conclusion emerges despite overwhelming evidence of substantial growth of black employment in the public sector following the enactment of the 1964 Civil Rights Act.

And, how will self-help solve the problem of racial inequality? Brooks will rely on the generosity of the black middle-class:

¹⁶"Universities show no interest whatsoever in fostering intellectual diversity'...But universities do take very seriously the issue of racial underrepresentation. Here they are quite willing to consider goals, quotas...whatever will rectify the tabulated disproportion. 'What we're hoping...is that racial diversity will ultimately lead to intellectual diversity.'" Dinesh D'Souza, *Illiberal Education* (New York: The Free Press, 1991): 231.

¹⁷Linda Greene, "Equality through the law?" *Tulane Law Review* 64 (June 1990), 1515-1541, writes:

"In the last decade of the twentieth century, the Court demands that the precious political capital of minorities seeking economic equality be spent determining the existence of racial economic discrimination rather than pursuing policies to insure minority participation in public economic programs." 1531

She also notes the "rights of Whites" theory: that equal protection clause forces a strict scrutiny test requiring that special benefits to blacks do not necessarily come at the expense of making whites worse off.

¹⁸Brooks, pp. 4-5.

¹⁹*Ibid.*, p. 6.

I envision a program of household support in which middle class African Americans work one-on-one, long-term, with poorer families and underclass to impart and to coach the behaviors, values, and attitudes of mainstream society, as well as the survival techniques that African Americans have found essential in a racist society.²⁰

Conclusion

My objective here has not been to outline a solution to the problem of racial inequality. However, I have attempted to argue that the matter before us today--the problem of rising family income inequality and the continued persistence of poverty--cannot be understood without grappling with the problem of *racial economic inequality*. The numbers in the recently released Census report point to the fact that not only have black and Hispanic real median incomes declined, so too have white incomes. But since there was a larger percentage reduction in black and Hispanic incomes than white incomes, the gap between them has widened.²¹ It is not my contention that the declining real incomes of white households is not a major and significant public policy problem. Rather, it is my hope to alert you to the hidden evidence that just as whites were becoming worse off in real terms, so were blacks in real and in relative terms. What is disturbing about these numbers, moreover, is that policies that aim to make blacks better off in relative terms may be nearly impossible in a political environment where white households are losing ground. Since the widening of the gap in black and white incomes is part of a longer-term trend--and not the result of simply the recession of the early 1990s, this suggests that getting white incomes up--while desirable for economic growth--may offer little hope for narrowing of the racial income disparity.

In conclusion, I must note that the search for solutions to the problem of widening racial inequality must be replaced on the front burner of national domestic policy making. This is to say that one of the hidden messages of the bad news from the Census Bureau is that we are losing the battle on creating racial economic equality in America. We can admit that that is what the numbers sadly reveal; or we can shirk from our responsibility to live up to our ideals of a nation of equality and let the next generation deal with these unpleasant truths. As long as nonwhite incomes continue to lag behind that of whites, and as long as we continue to cut domestic programs aimed at supporting a minimum level of living for persons at the bottom of the income distribution--persons who are disproportionately nonwhite--we run the risk of returning to your committee again and again with further sad news that the income distribution is becoming more and more unequal.

²⁰Ibid. p. 14.

²¹Black median household income was \$20,460 in 1989 while white median household income was \$34,403 in that year yielding a black-to-white income ratio of .595. By 1992, black median household income fell to \$18,660 and white median income fell to \$32,368. (These incomes are expressed in real 1992 dollars.) White incomes dropped by 5.9 percent; black incomes dropped by 8.8 percent. Thus, the black-to-white income ratio widened reaching .576 in 1992.

Mr. KOPETSKI. Thank you, Mr. Myers. Let me ask you something—you said that we should not sacrifice and make choices between groups, be they black, between overall—the overall part of the society in terms of who makes gains. Isn't it also true that we have to do the opposite—you hit upon it, I think—that the poor are getting poorer in our society and there are many more poor folks in our society generally. But unfortunately there is even a wider gap, for a variety of reasons that you articulated between African-Americans and whites, a gap that has grown significantly.

It seems that our goal therefore is twofold, not only generally reduce poverty in our society, but also target the black population as well. Should we do that targeting, do we do both—what approach should we take?

Mr. MYERS. Let me rephrase what you have said. We have two problems. One problem is an interracial inequality problem. That is a widening gap between blacks and whites. The other problem is an intraracial inequality problem, the widening between the top and the bottom.

The answer is you can't solve the interracial inequality problem without solving the intraracial inequality problem. The testimony tends to demonstrate that these two problems are so intertwined that you can't talk about the bottom falling without talking about the fact that at the bottom we have a disproportionately nonwhite population.

Mr. KOPETSKI. Such programs as the income tax credit or health coverage for everyone or at least starting with people that have a job, your thoughts on these—do you believe that they will help address the income needs of poor African-Americans, help alleviate poverty in this country?

Mr. MYERS. Let me go on record saying that problems such as universal health care, tax credits help to lessen the negative impact of being at the bottom. It doesn't solve the problem. Earlier today there was discussion of the fact that CETA and related War on Poverty programs tend to have a—result in greater growth, higher incomes on average and so forth. What we neglected was the fact that these were frequently transfer programs; in other words, we raise people a little bit above a low level. They didn't result in a permanent transformation of distribution of wealth.

The Chairman talked about redistribution of wealth, but all the topics that we have been discussing, things like earned income, tax credits, training programs, are not wealth redistribution programs. These are programs that can help an individual in this generation, but has no guarantee that it is going to move that individual's family up in the next generation. In other words, they don't have anything to do with redistribution of basic wealth.

The issue Professor Henry talked about, entrepreneurship, accumulation of wealth, this is an opportunity to transfer something from one generation to the next. We have abandoned that. In the last years of the CETA program we had a program called Be Your Own Boss, where women in south Florida had an opportunity to develop roach eradication, pest programs, domestic service activities, but not as workers, as owners. It was a great idea.

What we did was we financed the capital acquisition, the acquisition of the trucks, et cetera. This gave these individuals the oppor-

tunity to become business women and those businesses would provide intergenerational transmission of wealth and assets so that after we have given this opportunity to a group of poor people, then in the next generation we won't have to expend additional resources to keep them above the poverty line.

We cut that program and similar programs because we have been averse to efforts in order to permanently redistribute wealth, although we have been quick to employ programs that redistribute income.

Mr. KOPETSKI. I wish we could continue this discussion, but our time constraints are such that we can't.

Dr. Lehman, the targeted groups consist of individuals, et cetera, recipients of payments under means-tested programs, economically disadvantaged or the disabled. You may want to do studies in that area as well. Dr. Henry, thank you very much as well.

Mr. LEHMAN. I refer you to the section of my chapter which discusses the literature reviewing the targeted jobs tax credit.

Mr. KOPETSKI. Thank you very much. We have with the final panel from the Child Welfare League of America, David Liederman; from the Joint Center for Political and Economic Studies; Katherine McFate; from the National Puerto Rican Coalition, Ruth Pagani, public policy coordinator; from the National Black Child Development Institute, Erica E. Tollett, Senior Public Policy Analyst; and Barbara H. Thompson, Montgomery County, Md., Commission on Health.

We have another hearing shortly and will try to adhere as closely as possible to the 5-minute rule. All testimony will be made a part of the record in its entirety. Miss Tollett.

STATEMENT OF ERICA E. TOLLETT, SENIOR PUBLIC POLICY ANALYST, NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE

Ms. TOLLETT. Thank you. My name is Erica Tollett. I am the senior public policy Analyst for the National Black Child Development Institute. I am pleased to be here to discuss historical trends in poverty and family income and I want to briefly discuss how persistent poverty has debilitating effects on the ability of black parents to raise healthy children.

First, I want to point out that the National Black Child Development Institute believes the Congress must act to reverse the trends in poverty felt by African-Americans. We believe that the following must be done.

We must target young adults for employment and training opportunities to help young families just beginning to raise children; we must develop policies that focus on men, particularly black men, to help stabilize families; and we must invest in quality child care, early childhood education to ensure that employed parents are in a position to secure jobs and pursue educational opportunities, or receive job training.

Present trends in poverty for black Americans demonstrate that African-Americans are not escaping poverty at rates that we should be proud of as a rich and prosperous Nation. Blacks' percentage of the poor has fluctuated little since the mid-1960s.

We believe that the best strategy for improving the lives of black children is one of prevention and that parents should be the first line of defense in a prevention strategy. Parents are the nurturers, the protectors, the teachers, and the socializers of children. And when parents are unable to assume their role, prevention is hampered. When parents cannot afford to provide their children with the housing, goods and services needed to support them, parenting skills suffer.

In 1992 black families lost purchasing power. In addition, living in poverty because of unemployment limits the ability of parents to fully participate and take advantage of Federal policies designed to enhance parenting. For example, many African-Americans cannot take advantage of the Family and Medical Leave Act because they do not have a job from which to leave. Similarly, the recent expansion in the earned income tax credit will not help those African-Americans without jobs.

Poverty often puts a strain on the emotional well-being of an individual, and poor people are not as healthy as the nonpoor. Almost a third of mothers receiving welfare benefits report frequent feelings of depression, which again strains parenting and parent-child relations.

The best way to tackle poverty is with a good paying job. Black Americans need to be employed. Aggressive job creation is critical to the well-being of African-American children and their families, and Congress and the Clinton Administration should embrace the goal of a black unemployment rate that matches the white unemployment rate.

White Americans are not too far from enjoying full employment, and while we may like to talk about child poverty as if children are in a position to lift themselves out of it, adult employment is the real issue.

In addition to employment and training, adults need jobs that pay a living wage. Also, income inequality must be eliminated. According to the Bureau of Labor Statistics, in 1992 African-Americans earned less than white Americans at all educational levels and the gap was much more pronounced for men than for women.

Children need both of their parents in their lives. Unemployed men are less likely to marry and form families than are employed men. Children need empowered fathers. Empowerment increasingly depends upon knowledge and education, but barely 40 percent of blacks in higher education are males and there has been a substantial deterioration of black males receiving Ph.D.'s.

Children benefit from quality, early childhood education programs. When we compare the United States to most industrialized countries one finds that universal early childhood education is publicly supported and available to children.

Child care is important for African-American families because of the significant number of young children who need care. The black population is younger than the white population and black families have a greater need for child care because of the heavy labor force participation of black mothers.

Seventy three percent of black mothers were in the labor force in 1991 compared with 59 percent of white mothers.

Ms. TOLLETT [continuing]. America needs to implement a national, comprehensive, quality child care program.

Today, more black children live in mother-only households, which are more likely to be poor. These women certainly need to be economically secure, yet black men experience unconscionably high unemployment rates which do not put them in a position to support a family. The fact is that black unemployment has remained in the double digits for men and women, which disadvantages their children, and lack of a national effort to employ African-Americans has done much damage to the fabric of black communities and the well-being of black children.

American society has not fully committed itself to taking care of its children. Unlike most industrialized countries, we have yet to inaugurate policies that provide for a children's allowance, for example, or even to assure universal early childhood education.

Legislators must enact laws that foster the healthy development of children and facilitate the optimum functioning of families to assure that America plays a competitive role in the global marketplace. Employment of parents, a recognition that men are important to family policy, and a belief in the value of structuring a society that cares for its youngest citizens are important components to combating poverty.

I want to thank you for this opportunity to testify on this important issue.

Mr. KOPETSKI. Thank you, Ms. Tollett. That certainly was nonsense testimony, right to the point, an excellent use of 5 minutes of your life.

Ms. TOLLETT. Thank you. I have some more time to take questions.

Mr. KOPETSKI. Wonderful.

[The prepared statement follows:]

STATEMENT OF ERICA E. TOLLETT,
SENIOR PUBLIC POLICY ANALYST,
NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE

Chairman Ford, my name is Erica E. Tollett, and I am the Senior Public Policy Analyst for the National Black Child Development Institute (NBCDI) located in Washington, D.C. NBCDI serves as a critical resource for improving the quality of life of African American children, youth and families through direct services, public education programs, leadership training, and research. The Institute is 23 years old and has a network of 42 affiliates across the country.

I am pleased to be here today to discuss Historical Trends in Poverty and Family Income. Today I will briefly discuss how persistent poverty has debilitating effects on the ability of Black parents to raise healthy children. Poverty is often demoralizing. Lack of adequate income makes parenting difficult. It often has a negative impact on the education of children. Poverty influences the formation and dissolution of families and decreases their ability to provide stable and secure environments for children.

NBCDI believes that Congress must act to reverse the trends in poverty felt by African Americans. We believe that the following must be done: (1) We must target young adults for employment and training opportunities to help young families just beginning to raise children; (2) We must develop policies that focus on men, particularly Black men, to help stabilize families; and (3) We must invest in quality child care/early childhood education, to ensure that employed parents are in a position to secure jobs, pursue educational opportunities, or receive job training.

Historical Trends

Poverty has been the condition for most Black Americans in this country until well into the twentieth century. In 1939, "The odds that a black person would be in poverty (the ratio of the poverty to the nonpoverty populations) were 7 times higher than those for a white." ¹ Beginning in the 1950s and for the next couple of decades, poverty began to decline for African Americans. But even in its decline, the poverty rate for Blacks was 30 percent in 1974 compared to 9 percent for Whites.

Present trends in poverty for Black Americans demonstrate that African Americans are not escaping poverty at rates that we should be proud of as a rich and prosperous nation. In 1992, the Census report on poverty notes that the poverty rate for Blacks was 33.3 percent compared to 11.6 percent for Whites. In addition, "Blacks constituted only 12.6 percent of all persons but 28.8 percent of the poor, a proportion that has fluctuated little since the mid-1960's." ² Today, families in poverty are primarily made up of children and their single mothers. American society has tolerated disproportionately high poverty rates for African Americans for too long.

Poverty and Parenting

NBCDI believes that the best strategy for improving the lives of Black children is one of prevention. Parents should be the first line of defense in a prevention strategy. Parents are the nurturers, the protectors, the teachers, and the socializers for children. When parents are unable to assume their role, prevention is hampered. When parents can not afford to provide their children with the housing, goods, and services needed to support them, parenting skills suffer. In 1992, Black families lost purchasing power. The median income for Black families was \$21,161, which was a drop from the 1991 median of \$21,548 (in unadjusted dollars). For White families in 1992, the median income was \$38,909, an increase from the 1991 level of \$37,783 (in unadjusted dollars).

Living in poverty because of unemployment limits the ability of parents to fully participate and take advantage of federal policies designed to enhance parenting. For example, many African Americans can not take advantage of the Family and Medical Leave

Act because they do not have a job from which to leave. Similarly, the recent expansion in the Earned Income Tax Credit will not help those African Americans without jobs.

Employment and earning a livable wage build self esteem which enables parents to extend themselves to their children. Parents extend themselves to their children in many ways. They demand quality educational programs for their children. They are actively engaged in the education of their children. They seek out information that will help them better understand how their children develop intellectually, socially, physically, and emotionally.

On the other hand, poverty often puts a strain on the emotional well-being of an individual. Poor people are not as healthy as the nonpoor. Almost a third of mothers receiving welfare benefits "report frequent feelings of depression," which again, strains parenting and parent child relations. In addition, "poor children in general are in worse health and have more developmental and learning difficulties than children on average."⁴ Parenting is difficult in the best of circumstances, but parenting a child with special needs is more challenging.

Black Adults Need Employment

The best way to tackle poverty is with a good paying job. Black Americans need to be employed. Aggressive job creation is critical to the well-being of African American children and their families. Congress and the Clinton Administration should embrace the goal of a Black unemployment rate that matches the White unemployment rate. In 1992, the average unemployment rate for Blacks was 14.1 percent compared to 6.5 percent for Whites. In June 1993, Black unemployment was a stunning 13.3 percent compared to 6.1 percent for Whites. In September 1993, Black unemployment remained in the double digits, at 12.6 percent compared to 5.8 percent for Whites. White Americans are not too far from enjoying full employment. And while we may like to talk about "child poverty" as if children are in a position to lift themselves out of it, adult employment is the real issue.

Increasing the skills of young adults, particularly of those just starting families, through education and training will improve the quality of life for children. Yet, during 1986 to 1991, only 38 percent of young adults received training according to a National Longitudinal Survey of Youth.⁵ Whites were more likely to receive company training while Black and Hispanic training was more likely to take place away from the workplace, such as in business schools, vocational or technical institutes.⁶

In addition to employment and training, adults need jobs that pay a living wage. Also, income inequality must be eliminated. According to the Bureau of Labor Statistics, in 1992, African Americans earned less than White Americans at all educational levels, and the gap was much more pronounced for men than for women.⁷ Inequalities in employment and pay reflect the racism and discrimination that are still rampant in America.

More Attention to the Welfare of Men

Children need both of their parents in their lives. Unemployed men are less likely to marry and form families than are employed men. Even if men do not marry, employed people add stability to communities. For too long our public policies have not fully addressed the problems of males. However, this has not always been the case. For example, Stephanie Coontz, author of *The Way We Never Were* has noted that "Federal GI benefits, available to 40 percent of the male population between the ages of 20 and 24, were one of the main reasons that a whole generation of men could expand their education and improve their job prospects without foregoing marriage and childbearing."⁸

Children need empowered fathers. Empowerment increasingly depends upon knowledge and education. Indeed, Peter F. Drucker has written, "Knowledge is now fast becoming the one factor of production, sidelining both capital and labor."⁹ Barely 40 percent of Blacks in higher education are males, and there has been a substantial deterioration of Black males receiving Ph.D.'s. On the other hand, Black women have been making significant educational gains, especially in graduate and professional schools.

The country is suffering from its lack of attention to the needs of males. High incarceration rates of Black males between the ages of 18 and 35, gangs, homicide and low life expectancy are the results of this inattention.

Child Care and Early Childhood Education

Children benefit from quality early childhood education programs. When comparing the United States to most industrialized countries, one finds that universal early childhood education is publicly supported and available to children. For example, in France, investing in young children is viewed as inherently good for the future of the country. NBCDI believes that quality child care should be considered synonymous to early childhood education. Child care/early childhood education helps ensure that preschool-age children have a strong foundation to prepare them for school and society.

Child care is particularly necessary for Black families because of the family composition of many African Americans. In 1992, only 36 percent of Black children under the age of 18 lived with their mother and father compared with 67 percent in 1960. For Whites the percentages were 77.4 percent in 1992 and 91 percent in 1960.¹⁰

In addition to the large numbers of single parents, child care is important for African American families because of the significant number of young children who need care. The Black population is younger than the White population. Based upon 1992 data, a third of the Black population was under 18 compared to one-quarter of the White population under 18 years of age. Although the trend is for Black and White women to have fewer children than they had more than 30 years ago, according to the Bureau of Census, "Black women in each age group have somewhat higher average numbers of children ever born than comparable Whites."¹¹

In addition, NBCDI's recent study identifying the factors that affect Black Americans' rise to leadership positions within the early childhood profession, shows that Black families have a greater need for child care because of the heavy labor force participation of Black mothers. The study points out that 73 percent of Black mothers were in the labor force in 1991 compared with 59 percent of White mothers.

America needs to implement a national comprehensive quality child care program. It should include developmentally appropriate educational practices, strong parental involvement and increased wages for child care providers. It should be affordable and accessible to families because it facilitates the self-sufficiency of low-income families.

Conclusion

Today more Black children live in mother-only households, which are more likely to be poor. These women certainly need to be economically secure. Yet, Black men experience unconscionably high unemployment rates which do not put them in a position to support a family. In addition, high percentages of Black males are incarcerated which leaves them unavailable to their children. Many are involved in the criminal justice system at levels which leave

them in a disadvantaged position for good paying jobs. Unemployment and incarceration leave fewer male role models.

Moreover, Black unemployment has remained in the double digits for men and women, which disadvantages their children. Lack of a national effort to employ African Americans has done much damage to the fabric of Black communities and the well-being of Black children.

American society has not fully committed itself to taking care of its children. Unlike most industrialized countries, we have yet to inaugurate policies that provide for a children's allowance for example, or even to ensure universal early childhood education. When we discuss poverty, welfare reform and other measures to economically empower families, it is important that a system of quality early childhood education is in place, not only for the healthy development of children but also to support the parents who must work. The current Administration has made a good effort of beginning this important focus.

Legislators must enact laws that foster the healthy development of children and facilitate the optimum functioning of families to ensure that America plays a competitive role in a global marketplace. Employment of parents, a recognition that men are important to family policy, and a belief in the value of structuring a society that cares for its youngest citizens are important components to combatting poverty.

Endnotes

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4. Ibid.
5. Jonathan R. Veum, "Training among young adults: who, what kind, and for how long?" *Monthly Labor Review* (August 1993).
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9. Peter F. Drucker, "The Rise of the Knowledge Society," *The Wilson Quarterly* 17:2 (Spring 1993) 52-71.
10. Claudette E. Bennett, *The Black Population in the United States: March 1992*, (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census), 7.
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Mr. KOPETSKI. We will now hear from the Child Welfare League, Mr. Liederman.

**STATEMENT OF DAVID S. LIEDERMAN, EXECUTIVE DIRECTOR,
CHILD WELFARE LEAGUE OF AMERICA, INC.**

Mr. LIEDERMAN. Thank you, Mr. Chairman. I thought I would take a few minutes to talk about the impact of poverty on children and families.

Clearly, all of the statistics that we heard are all bad for kids, and every single thing that happens to most kids in this country happens to poor kids in much larger percentages. Poor kids have greater health risks, they have lower birth weights, they have poorer nutrition, they have a greater chance of exposure to lead paint poisoning, they have a greater risk of prenatal drug exposure, they have a greater risk of exposure to AIDS, and you can go on and on and on.

Mr. KOPETSKI. Are any of them at fault?

Mr. LIEDERMAN. No, they are not. They just happen to be in those circumstances.

Mr. KOPETSKI. Thank you.

Mr. LIEDERMAN. Poor children are likely to be without health insurance. They grow up in inadequate housing. They are twice as likely to drop out of school as kids who are not poor.

Mr. KOPETSKI. Is that their fault?

Mr. LIEDERMAN. Not their fault.

Mr. KOPETSKI. Thank you.

Mr. LIEDERMAN. And, of course, they are much more likely to enter the child welfare system. In the last 7 years the number of kids coming into child welfare doubled, up from 260,000 to 450,000; and, as you know, you were helpful in getting legislation through in the OBRA, for which we are grateful to you, and Mr. Matsui and Mr. Ford. We appreciate it.

If you look at those numbers and the reasons why, there are two major reasons why children come into the child welfare system. I was with the assistant director of the Illinois Department just last week, in Ohio, and she was telling me that in Chicago alone the net increase in the number of kids in the child welfare system is 500 a month; the kids come out and the kids go in, and that increase is 500 per month.

The biggest reason is poverty. Poverty. It is poverty and drugs, but you don't have to be a rocket scientist to figure out that the drug problems are related to poverty and that there is a link between the two.

So poor kids are more likely to enter the child welfare system. Probably most significant is that poor kids are more likely to be the victims of crime, and they are also more likely to be the victimizers; it cuts both ways, it works both ways.

It is really a kind of a joke, Mr. Chairman, when I hear some of your colleagues in Government, some of our colleagues in the general community, talk about the solutions to crime; I will give you just a couple examples—death penalty, bring back the death penalty. And there is tremendous evidence, of course, that the death penalty is not a deterrent at all.

The two States executing more people than any other States are Texas and Florida, and of course, the crime rates are down in Texas and Florida—sure they are. I mean, they are off the board. They are absolutely off the board.

The other big one is build more prisons. And, of course, we have tripled the prison population in the last 10 years. We have 1 million men and women incarcerated in the United States.

These so-called solutions have had no effect.

The last one that I will mention, that I think is probably the one that is scary as well as ludicrous, is to bring out the National Guard. One has visions of armed National Guard people in every community in the United States, which I don't think most of us would like too much.

So if those solutions don't work and there is no evidence they do work, then what should we do? Unlike our colleague from Yale, Dr. Lehman, I think there are pretty obvious things that we could do that would make a difference to the poor, particularly the urban poor. I will just mention a couple.

The first thing that would be helpful would be to have a strategy of how we are going to deal with poor folks and poor neighborhoods. We have no strategy. We have no national plan. There is no game plan. It defies my imagination that in a country with all the brain power that we have we cannot figure out how to organize our services in a way that we can get results. We should put everything but the kitchen sink into the neighborhoods where the problems are.

I will just mention a few of the things we need to do. Instead of an army of cops, how about an army of youth workers working with a army of trained juvenile police officers who know how to work in urban areas, with poor kids? This alone would go a long way toward helping those communities.

How about we fix up the neighborhoods? Why not fix up the neighborhoods and deal with the problems of housing and parks and health centers and libraries and street lights and all of the problems that folks have to deal with in poor neighborhoods?

Why not fix up the schools?

Why not real job training programs that have public service jobs attached to them? If anybody believes that the public service jobs are not a part of this mix, then they are not on the same planet that I live on, because public service jobs have to be part of the answer. We cannot depend on the private sector to produce jobs for the part of the population that we are talking about. It also wouldn't hurt to strengthen the child welfare system.

If you compare the poverty rates of senior citizens to the poverty rates of children, and you look at the poverty rate of seniors, which is now about 12 percent, and the poverty rate of kids, which is about 22 percent, the biggest single reason, I am not suggesting for a minute that the seniors are living off the fat of the land, because they are not. They are just doing a little better—

That difference is in place because seniors automatically get a cost of living allowance every year. There is an automatic cost of living increase for folks on SSI and Social Security; there is nothing comparable for people on AFDC. It is up to the whims of every State legislature and every Governor to determine that.

So if we——

Mr. KOPETSKI. I thought you were going to say it is because they are old enough to vote.

Mr. LIEDERMAN. That is also true. Because they vote and they vote, as we say, early and often.

The point is that if we combined all of these suggestions into some kind of an organized plan, if we identified the neighborhoods systematically in every community that needed the full treatment, if we used the Empowerment Zones and Enterprise Communities legislation, some of the other programs we passed last year—and we began to really go at this in a systematic way, I think we would have a fighting chance of dealing with some of these problems.

Thank you.

Mr. KOPETSKI. Thank you, Mr. Liederman.

[The prepared statement follows:]

STATEMENT OF DAVID S. LIEDERMAN,
EXECUTIVE DIRECTOR,
CHILD WELFARE LEAGUE OF AMERICA

Chairman Ford and Members of the Subcommittee, I am David Liederman, Executive Director of the Child Welfare League of America, a membership organization representing more than 700 public and private child serving agencies that assist over 2.5 million children and their families nationwide. Our member agencies in each state serve troubled and vulnerable children, many of whom have experienced the hardship of poverty. I commend you for holding this important hearing on historical trends in poverty and family income, and I appreciate the opportunity to testify on poverty and children and families in the child welfare system.

First let me thank you, Chairman Ford and the Subcommittee, for your successful efforts to enact significant child welfare services, foster care, and adoption assistance initiatives as part of the Omnibus Budget Reconciliation Act of 1993 (OBRA) (P.L. 103-66). Those of us who have worked for years to seek help for the nation's low-income, hungry, neglected, and abused children know that this landmark legislation took significant steps to protect and support children and their families.

The new front-end services that will be made available under the Family Support and Family Preservation initiative will support the healthy development of children and families. The expansion of the Earned Income Tax Credit alone will help guarantee that parents who work full time will not be forced to bring up their children in poverty. The Empowerment Zones and Enterprise Communities provision will promote economic self-sufficiency, and will provide an additional \$1 billion for the Title XX Social Services Block Grant, an important source of child welfare funds in many states. The Mickey Leland Childhood Hunger Relief Act revamps the Food Stamp program to better meet the high cost of feeding a family. I applaud you for your leadership and expressed commitment to these important programs that we hope will reverse the damaging trends of the past decade.

Despite these encouraging actions by Congress and President Clinton to assist low-income children and families, the problem of poverty is greater than ever. The poverty rates for 1992, released this month by the Bureau of the Census, indicate that the disturbing family income trends of the past several years have worsened. While poverty among all Americans rose again to 14.5 percent or 36.9 million people, the poverty rate for children remained the highest of any age group, rising to 21.9 percent or 14.6 million young people. This is the highest rate in ten years. Nearly half (46.6 percent) of Black children live in families below the poverty line. Children under six are more than twice as likely to live in poverty as adults. Among low-income Americans, children are very poor. Close to half of all poor children (46.9 percent) fell below half the poverty line last year.

Last year, most states fell further behind in meeting their responsibility to assist families in need. States made reductions in Aid to Families with Dependent Children (AFDC) program benefit levels, and severe general assistance program cuts were made in Michigan and other states. These cuts were accompanied by reductions in other benefit programs, as well. In 1992, forty-four states froze or cut AFDC benefits for the coming fiscal year, and twenty-six states froze or cut state supplemental benefits in the Supplemental Security Income program. Evidence compiled by the Center on Budget and Policy Priorities indicates that such benefit cuts since the 1970s have contributed to the significant increase in poverty among children and adults. The gap left by state cuts means that the federal government must continue to take the lead in combatting poverty.

Let me take a moment to discuss the impact of poverty on the millions of low-income children and families served by our member

agencies. I will then suggest steps that this Subcommittee and the Congress should take to continue to combat poverty.

Poverty and economic instability take a terrible toll on children. Children growing up in low-income families, especially those living in troubled neighborhoods, suffer serious health and behavioral problems. Poor children experience more hunger, homelessness, and violence. They lack the necessary skills and knowledge to get good jobs, and they have fewer job opportunities.

Children involved in the child welfare system typically have experienced family breakdown or crisis. In many cases, poverty and related conditions contribute significantly to the family crisis. More than half of families served by our agencies receive AFDC benefits. These and many other families that have inadequate financial resources for food, shelter, clothing, health care, child care, and other essential materials experience greater stress and are therefore in more danger of abusing or neglecting their children than other families. Economic insecurity also leads to serious problems in other areas, including personal safety, school performance, and work readiness, that further compromise a family's ability to cope, function well, and remain stable.

When families experience severe crises or break down completely, children face uncertainties concerning where they will live, who will care for them, and how they will manage to grow into adulthood. Children in troubled families face these issues each day, and risk becoming angry, withdrawn, or dispirited.

The child welfare system provides the harbor of last resort to help vulnerable children and their families. Yet the unacceptable high rate of children and families living in poverty, with its attendant conditions that place children in jeopardy, continues to overload the child welfare system. In 1992, reports of child abuse and neglect reached some three million, and more than 450,000 children were in out-of-home care, up from 260,000 in 1986.

I continually am amazed and encouraged by the success with which our member agencies provide the most hurting children in America with outstanding services, despite underfunded programs, inadequate facilities, and a line of eligible clients out the door and down the block.

Among the available initiatives to reduce poverty, some of the most effective and cost-saving measures will reduce the incidence of both poverty and family breakdown. The recently passed OBRA offers significant new opportunities. We must build on that commitment and retool our systems to provide families with the support and economic opportunity necessary to alleviate family crises and avoid dissolution. These social investments are necessary to help families maintain adequate income and a safe and healthy home environment, and stay or climb out of poverty. These investments must include:

- adequately funded public assistance programs
- employment opportunities and training for well paying jobs
- child care availability
- affordable housing
- preventive health care
- quality educational opportunities
- an army of youth workers working in targeted neighborhoods across the country
- drug treatment programs on demand
- healthy parenting courses
- integrated social services delivered in neighborhoods

These steps are preventive -- they build healthy children, healthy families and a healthy society and therefore reduce the likelihood of more costly, irreversible problems further along the way.

The debate on health care reform that has taken center stage provides additional opportunities to improve care and to reduce big stressors for families. I urge you and your colleagues to make sure that health care improves for poor and vulnerable children and their families, and that they do not fall through the cracks of reform.

The welfare reform debate that awaits Congress later this year also offers an opportunity to increase support for families in need and to help lift families out of poverty. Some voices, however, will call for Draconian measures in the name of welfare reform that will hurt children and families. I urge you and your colleagues to ensure that final welfare reform legislation is quality reform; if not, we will face more severe problems down the road. We must create opportunities that reduce welfare rolls, not simply start the clock running and cut AFDC recipient names from the list. Welfare reform is a broad issue that touches on everything we have discussed today -- employment, health care, housing, child care -- and attempts to treat welfare reform in the narrowest way possible will be disastrous.

The upward trend in the child poverty rate is at a crossroads. If we enact the social investments required to bring the problem under control, we could see the percentage of children in poverty decrease to a negligible figure. If, on the other hand, we fail to reverse the poverty trends of the past thirty years, the poverty rate could increase as high as 28.5 percent by the year 2012, according to John Cook and Larry Brown of the Center on Hunger, Poverty and Nutrition Policy.

Children are too precious to our nation's present and future to let them remain the poorest of our citizens. We cannot afford to have a quarter, or a fifth, or any children at all living in poverty.

We have much to do still to reverse the anti-children policies of the past decade which have left millions upon millions of children poor. I look forward to working with you, Chairman Ford and Members of the Subcommittee, to turn the tide and reduce child poverty.

Mr. KOPETSKI. Let's move to Ms. McFate.

STATEMENT OF KATHERINE MCFATE, ASSOCIATE DIRECTOR OF RESEARCH, JOINT CENTER FOR POLITICAL AND ECONOMIC STUDIES

Ms. MCFATE. Thank you for allowing me to opportunity to talk today.

Mr. KOPETSKI. Can you tell me just where the Joint Center for Political and Economic Studies is located now?

Ms. MCFATE. On Vermont Avenue in Washington, D.C. We used to be on Pennsylvania Avenue, but we are on Vermont. We moved back.

We have heard a lot of facts and figures about the black population, I don't want to go over those, but I would like to hit on a few facts that might have gotten lost in some of the numbers that you heard today.

A third of the black population in the United States lives in poverty. That is not new. That is pretty consistent. But the number of African-Americans living in poverty today is greater than ever before, and of the 10.6 million black citizens that are living in poverty today, more than half are children and elderly. I think that gets lost sometimes, too. Some 4.9 million are children, and 887,000 are elderly.

Black poverty is also more severe, and that is something that gets lost, too. Almost 12 percent of black households have incomes less than \$5,000 per year—12 percent, less than \$5,000 a year. Less than 4 percent of whites, and 6.6 percent of Hispanics have incomes that low.

Fully 42 percent of black households could be called "low income," and live in households with less than \$15,000 a year. That is compared to 22 percent of white households in the United States. So blacks are very poor and at the bottom of the ladder.

We have talked about the two main causes, primarily economic, but also some demographic changes; and obviously for the African-American population, demographic changes are important and have hit the black population more severely than the white.

But we want to go back to the economic differences. Black unemployment rates have consistently been twice as high as white. It used to be that long-term unemployment was higher among blacks than whites. That seems to have changed so it is about the same, so the proportion of those unemployed long-term is about the same for blacks and whites, which I think speaks to poverty as a general economic problem.

But even those lucky enough to find work and full-time employment know that work no longer guarantees protection against poverty. Over 9 percent of all full-time, full-year workers in the United States today are poor. Eighteen percent of black and Hispanic female household heads, with children, who work full-time all year are poor compared to only 7 percent of white female household heads. That is important.

So there are a significant number of minority heads of households, women, female heads of households working full time and doing everything they can to take care of their kids, and they are still poor today. Sometimes that get lost in these discussions about

the demographic change and who is to blame and what is going on there.

Another point that seems to get lost a lot, that I make in a lot of these presentations, is that black Americans are geographically not as dispersed as everyone else. They primarily reside in about 16 States and over half still live in the South. That has an impact on their poverty rates and on their employment prospects and on wages because poverty rates are lower in the South, and wages will be lower in the South and government assistance tends to be lower in the South and more spotty.

So it is a combination of low wages for adult black workers, high rates of joblessness, and increased prevalence of single-parent families that creates high poverty rates among children. But I do note the poverty rate among the black elderly is three times as high as poverty rates among white elderly.

So our Social Security system—we make this comparison of how we take care of kids versus the elderly, and we see that we are not doing a great job taking care of elderly black folks, compared to what we do for white people, either. So that is contributing to the higher black poverty rates as well.

Gee, I was just getting into talking about policy.

I want to hit two policy areas that we are very concerned about: One, the Department of Labor is talking about doing a lot of improvements in its employment and training services. That is part of their Work Force 2000 proposals. We are very concerned. We make sure that the employers get brought into the employment centers. Other countries mandate that employers list vacancies in their local employment offices. Given what is going on in terms of documenting employer discrimination in the labor market, we think that something along those lines should be instituted.

The other one that we are very concerned about is that employment and training centers will only take care of dislocated workers. We are very concerned that there is a large segment of the black population that was dislocated during the big recession of the 1980s, and has never been able to get back into the labor force. Those people will be cut out of getting those kinds of employment and training services, assessment and counseling and all those things—skills upgrading or changing careers. We are concerned that they are going to be cut out of what the Department of Labor is doing in terms of this new system.

We would also very strongly urge you, when you are talking about the welfare reform that will be on the board, to try to get welfare recipients into that general system and not create something different for them in terms of employment and training services, something different than what is available for most—for the rest of the Americans who are in need and who need help in adjusting to this new economy that we are all so concerned about.

Thank you.

Mr. KOPETSKI. Ms. McFate, thank you.

[The prepared statement and attachments follow:]

**STATEMENT OF KATHERINE MCFATE,
JOINT CENTER FOR POLITICAL AND ECONOMIC STUDIES**

Mr. Chairman, members of the Committee, thank you for inviting me here today to speak. My name is Katherine McFate. I am Associate Director of Research at the Joint Center for Political and Economic Studies, the nation's leading research and policy institute dealing with issues of concern to black Americans.

Trends in Poverty Among African-Americans

Black Americans have the highest poverty rate of any racial or ethnic group in the United States (Exhibit 1). This is not news. The black poverty rate has been about three times the white poverty for many years. About a third of the black population in the United States lives in poverty today. However, the *number* of African-Americans living in poverty today is greater than at any time in recent history: today, over 10.6 million black citizens live in poverty, 4.9 million are children, 887,000 are elderly. This has been a fairly steady increase, mirroring population increases overall (Exhibit 2).

However, not only is poverty among black Americans more pervasive, it is more severe. Exhibit 3 shows that today almost 12 percent of black households have incomes of less than \$5,000 compared to just 3.6 percent of whites and 6.6 percent of Hispanics. This means that over 1.3 million black households have annual incomes of under \$5,000. And fully 42 percent of black households can be called low-income -- i.e., have annual incomes of under \$15,000. About 22 percent of white households had low incomes. In 1992, almost one of every four households in the United States had an income of less than \$15,000 -- of these 22.7 million low income households, 4.7 million were headed by an African-American.

Factors Contributing to the Increase in Black Poverty

The two main causes of increasing poverty among African-Americans are exactly those that affect all Americans: economic change and socio-demographic change. The two are intertwined in complex ways, but both have had a more severe affect on the black population than on other groups.

Economic Change

Black Americans have traditionally provided much of the country's low skilled and semi-skilled labor. Since the passage of Civil Rights Legislation three decades ago, African-Americans some progress (in educational attainment and occupation dispersion) -- black high school graduation rates are almost as high as whites -- and a small, but affluent class of black professionals has developed.¹ Nonetheless, most blacks continue to occupy blue-collar positions -- the jobs most vulnerable to the job losses and wage declines in the 1970s and 1980s.² As you see from Exhibit 1, white poverty rates in the 1980s were more responsive to recession and recovery; black poverty rates did not fall as rapidly after the deep recession of the early 1980s. This is part of the overall story about the problems facing black families and individual workers today: black workers (and potential workers) have been hardest hit by structural changes in the economy.

¹ In 1969, only 6.5 percent of all black households had incomes over \$50,000; in 1979, this figure had grown to 10.5; it peaked at 13.8 in 1988 and has since fallen. Today, almost 13 percent of all black households have incomes over \$50,000 a year, compared to 27.5 percent of all white households.

² Almost 31 percent of employed black males today are "operators, fabricators, and laborers" as are 11 percent of black women, compared to less than 19 percent of white males and 7 percent of white women. In April 1992, there were over 2.1 million unemployed "operators, fabricators and laborers" in the country and 45 percent had been unemployed for over 15 weeks. Another 14.5 percent of black males and 24.4 percent of black females are in "service occupations" compared to only 6.7 percent of white males and 14.4 percent of white females. About 1.4 million service workers were unemployed in the spring of 1992, but only 29 percent had been unemployed for over 15 weeks. Black workers are concentrated in occupations and industries with high unemployment rates and low wages.

Black unemployment rates are consistently twice as high as white unemployment rates. In May 1992, unemployment among white males was 6.3 percent, among black males 15.7 percent; 5.6 percent of white women were unemployed compared to 13.5 percent of black women. Over 2 million black Americans were unemployed in 1992; over one in five were unemployed for more than 26 weeks -- and hence probably exhausted any unemployment benefits they had. I would point out that until recently long-term unemployment among blacks was significantly higher than among whites. Current economic conditions appear to have equalized this situation somewhat, so that long-term unemployment rates among whites and blacks are now about the same.

But young African-Americans, particularly those with a high school education or less, are having more trouble getting into the labor force. Over half a million more 25 to 55 year olds are not in the labor force (even though they are not disabled, keeping house or in school). A number of economists have argued that the real trouble that young blacks have been having in the labor market is the difficulty that they have getting that first job. This is largely because the jobs for which they would have been hired are disappearing. But employer discrimination is a continuing factor. Recent "employment audit" studies that match education, job history, appearance, etc., of job applicants show that racial discrimination on the part of employers still affects the employment prospects of even qualified black workers. In 1992, according to CPS, about 12 percent of black males 18 to 64 years old did not work during the year and were poor. About a third of black women 18 to 64 did not work and were poor. In other words, 2.8 million African-Americans of working age could not find work during 1992 and as a consequence, were living in poverty.

However, even those lucky enough to find work -- full-time employment -- know that work no longer guarantees protection from poverty. The most recent Census figures tell us that over 9 percent of all full-time, full-year workers in the U.S. today are poor. About 18 percent of black and Hispanic female household heads with children who worked full-time were poor, compared to only 7 percent of white female household heads with children. As among white Americans, the real median household income of African-Americans has been declining.¹ Today, the median income of a black family is only \$18,660 -- 58 percent of the income of white families.

Because black workers tend to be stuck at the bottom of the occupational and skill ladder, when the value of the minimum wage was allowed to be eroded by inflation in the 1980s, black workers were disproportionately hurt. A report released by Economic Policy Institute in 1991 showed that between 1979 and 1989, wages fell for the bottom 80 percent of the workforce, but the sharpest declines were among those with the lowest wages at the beginning of the decade. In 1973, 56.5 percent of black workers earned at least 200 percent of the poverty level for a family of four; by 1991, only 42.6 percent of black workers earned this much. The decline in wages has hit black workers and households especially hard.

The geographic dispersion of black Americans also affects their economic status. Over 80 percent of African-Americans reside in just 16 states. Over half of all African-Americans live in the South where wages and incomes (including government assistance) tends to be lower than in other parts of the country. About 45 percent of southern blacks live in central cities and the rest are evenly divided between rural areas and suburbs. Black poverty rates in southern central cities are about equal to the national average for blacks. Suburban black poverty rates in the South are lower than average; rural black poverty is high -- almost 40 percent of rural blacks in the South are poor. Almost all blacks in the

¹ The real median income of couple-headed black families declined by 5.4 percent (\$1824) and the real income of black female-headed families fell by almost ten percent -- \$1175 (the figures for white families were 1.2 and about 4 percent, respectively). The decline in the income of black female-headed families is likely the combination of falling wages and cut-backs in cash benefits. Like whites, couple-headed black families attempted to increase their work hours -- the percentage of black wives who worked increased grew to 66.6 percent in 1991 from 64 percent in 1989. (By comparison, the percentage of white wives who worked increased from 57.1 to 58.3 percent.) As has been the case for years, black wives are more likely to work than white wives and they are more likely to work full-time.

Northeast live in central cities where the black poverty rate is about 31.3 (slightly below the national average). Almost 80 percent of the blacks who live in the mid-West also live in central cities, and black poverty rates in Midwestern central cities are the highest in the country -- 42.8 percent. Obviously the fact that the vast majority of black Americans do NOT live in suburbs, where growth has been strongest and most continuous, significantly reduces their employment prospects.

Demographic Change

Demographic changes are also implicated in the increases in black poverty rates -- primarily through the increase in lone-parent families with children. This is a society-wide development, but has gone further and had more devastating effects in the black community than the white community.

Exhibit 4 shows the changing living arrangements of the black poor over the past several decades. The proportion of poor black persons who live alone or in female-headed households has steadily increased. Both living arrangements increase the risk of poverty.

Among whites as well as blacks, as the number of wage-earners and the level of probable earnings declines, poverty increases. Married couple-families have the lowest poverty rates; single-parent families with *male* heads have poverty rates considerably lower than single-parent families with children that headed by females of their own race. The relative poverty rates of these groups reflect the wage hierarchies in the U.S. labor market that have been distressingly consistent over the past decades: the median earnings of white males in 1992 was \$31,012, of black males \$22,369, Hispanic males, \$20,049; white females, \$21,659, black females \$19,819, Hispanic females, \$17,138. Thus, because female-headed black families have only one wage-earner and because they are likely to receive low wages when they do work, these families are more likely to be poor than other families.

It the *combination* of low wages for adult black workers, high rates of joblessness, and the increased prevalence of single-parent families that creates such high poverty rates among black children. In 1992, almost 47 percent of black children were poor, compared to 17 percent of white children and 40 percent of Hispanic children.

We should note, however, that poverty rate among the black elderly are three times as high as among the white aged, and higher than Hispanic elderly poverty rates (33 percent of the black elderly are poor vs. 11 percent of whites and 22 percent of Hispanic). More blacks are living longer, but a larger proportion of them are poor, despite Social Security. This also contributes to continuing high poverty rates among the black population. Public policies have done a much better job reducing poverty among the white elderly than the black elderly or children (Exhibit 5).

Policies to Address the Problems of the Black Poor

Job creation is the major policy concern of the African-American population and the most important anti-poverty strategy any Administration could implement. Since black Americans continue to be "last hired, first fired," any shortage of jobs relative to job seekers falls most heavily on blacks. The failure to pass the economic stimulus portion of the President's budget this year was a major disappointment and we are concerned that the cut-backs in personnel that will definitely result from Defense downsizing and are likely to result from the "reinventing government" initiative will fall heavily on the black population, since blacks have found military and civil service employment to be more accessible to upward mobility and advance than many private professions.

There are many infrastructure repair jobs to be done in our urban areas and human needs unmet for many years. We would like to see the federal government invest in rebuilding the nation's physical infrastructure and its human capital investment system. Providing venture capital and technical assistance to individuals who are willing to locate

new businesses in central cities could also provide employment opportunities for the minority poor. We strongly support the empower community concept.

If unemployment and joblessness were reduced over the next few years, we would still be confronted with the issue of equal access to available jobs. There are a number of factors that make it difficult for minorities to compete in the labor market: employer discrimination; physical detachment from job growth areas; inadequate skills/preparation for employment. Public policies could reduce the problems presented by each of these barriers.

Employer discrimination. Several studies conducted within the last three years have shown that overt employment discrimination in the U.S. is still strong and plays a major role in these racial disparities. We are still far from being a color-blind society, and as economic opportunities diminish, there will be tendency to let some of the advances of the past two decades to slip away. Affirmative employment policies for blacks and other minorities need to vigorously encouraged by the federal government. These policies do not have to be only enforcement/punitively based. Programs that attempt to create apprenticeships, training programs, break down stereotypes could help change the way employers view minorities.

Remoteness from employment opportunities. Continuing residential segregation in the U.S. - based on class as well as race -- presents a major obstacle to employment for minorities, particularly blacks who are concentrated in central cities that often lack convenient transportation networks to suburban areas that have experienced job growth in recent years. A number of strategies could help overcome these difficulties.

- o Increase the mobility of the poor by giving them more housing assistance and mobility grants to help them relocate to areas with greater employment opportunities. The Gatreaux Project in Chicago is an example of such a strategy that works.
- o Encourage local governments to create regional transportation networks that are as concerned with moving central city residents to suburban employment centers (malls, etc.) as they are with moving suburban commuters to jobs downtown. There are examples of local public-private partnerships that have established van pools, etc., for such purposes (Philadelphia), but government assistance/encouragement will probably be required to sustain such efforts.
- o Improve public employment services, mandating that employers list vacancies in their firms, so that individuals who are not physically close or socially connected to the enterprise have some way of finding out about job openings. This would presumably also operate to discourage overt employer discrimination.

Lack of skills/training to compete for jobs.

- o Public schools are the primary institutions that *should* be preparing the poor for work. Fundamental changes will be required in the organization and administration of our public education system to prepare children for the future workforce. In the meantime, we urge in the strongest terms that disadvantaged and jobless workers be included in the Dept. of Labor's plans to create "one-stop" employment counselling, training and placement services. At this time, it is our understanding that only dislocated workers (from Defense downsizing and potential NAFTA fallout) will be eligible to receive the services of these centers. Many black workers were "dislocated" during the corporate buy-out, mergers, and downsizing that occurred in the 1980s. They should not be excluded from services because they lost their jobs due to the mismanagement of business leaders rather than trade imbalances. If there is one thing that we should have learned about employment and training for the poor over the past three decades, it is that programs that segregate the poor and put them in a separate system create further barriers for their participation in mainstream institutions. We have to ensure that poor minorities have the same access to human capital development resources as others.

Even if the poor are able to enter full-time work, they will need supports to ensure that they can stay employed and support their families. Healthcare is the first need, of course. Wage supports are another. While the increase in the Earned Income Tax Credit was a welcome improvement, we need to ensure that the supplement is automatically given to workers each month to meet immediate needs as they occur. We also believe that the **minimum wage should be increased and indexed**, so that low-wage workers will not again see their real incomes as badly eroded as they were in the 1980s.

A national system of childcare should also be a **long-term goal**. The majority of mothers work today, but often have a very difficult time finding affordable childcare. Many women spend 25 or 30 percent of their *gross* income on childcare costs. Establishing a national network of childcare centers would help working parents fulfill their parental responsibilities, protect the interests of children, create employment opportunities, and professionalize the childcare field (improve standards and accountability). Moreover, until such a system is in place, it will be difficult to truly "reform welfare with work" -- the lack of childcare will make it impossible to demand that mothers of young children enter the workforce.

Finally, it is clear that our current system of income support for lone-parent families with children -- AFDC -- is failing and **needs to be reformed**. There is a clear consensus in the black community about this point. Given the strong national consensus that mothers should work, and the historical reality of black working mothers, it seems clear that we need to reform AFDC to encourage lone mothers to mix work and income assistance in new ways.

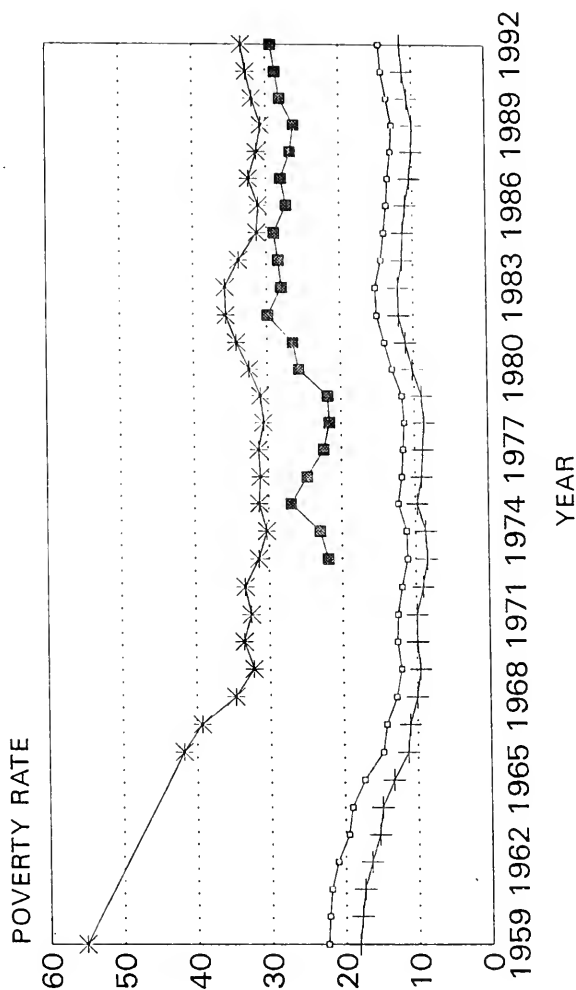
An obvious need is for a better system of child support. We applaud efforts to move toward a national system of child support enforcement, but given the low wages of many black fathers, would support **proportionate child support awards and a child support assurance system**, whereby the government pays up to a certain amount if the father can't. This would encourage mothers to mix their own earnings with a guaranteed amount from the absent father. We encourage AFDC programs, like the one in Washington State, that allow mothers receiving AFDC to earn up to the poverty level and beyond while still receiving assistance. Such a system rewards and encourages initiative.

We are in the midst of a period of economic transition, and African-Americans are being hard hit. Instead of blaming the poor for their plight or blaming income support systems for the poor for poverty, we need to rethink our whole social "safety net" system, not just AFDC.

We need to transform our unemployment insurance system to provide more assistance to the long-term unemployed and those unable to enter employment. We need to broaden income assistance for the jobless and tie this to a national system of job training system and public sector employment. Major structural reforms of these basic programs are especially important to the black population because of their high rates of unemployment, long-term unemployment, and unemployment insurance disqualification. The issue will become more pressing as General Assistance -- the only support available to the non-disabled, long-term jobless -- is the object of local and state program cuts. Despite continuously high jobless rates among central city minority males for an entire decade, we have no federal income support program designed for men unemployed more than 26 weeks -- except prison. Incarceration costs \$25,000 per person per year. Surely we can design programs that promote a more positive adaptation to the changing economy for less.

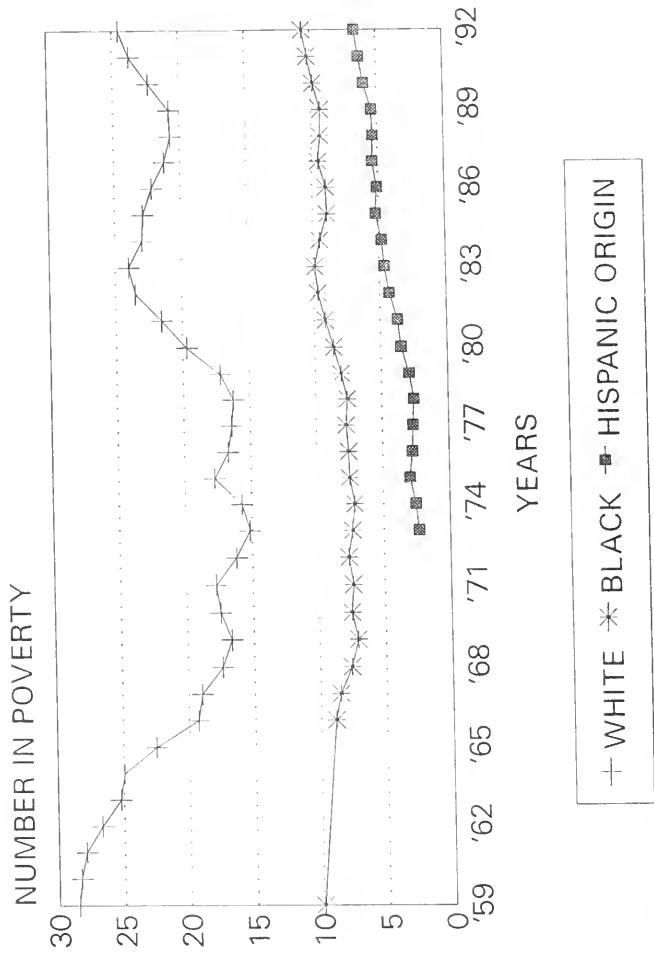
1. POVERTY RATES BY RACE

1959-1992



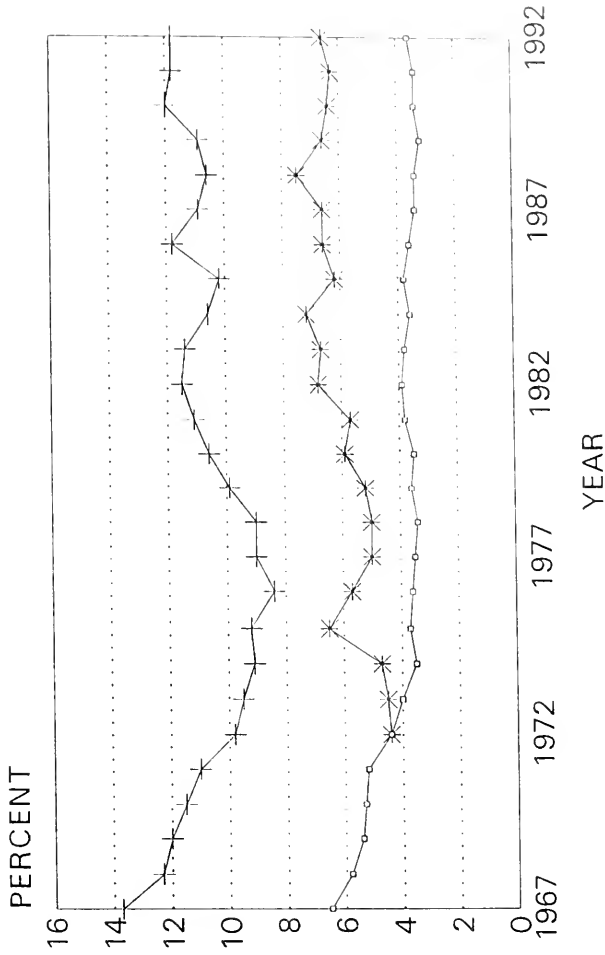
SOURCE: "POVERTY IN THE UNITED STATES: 1992"

2. TOTAL PERSONS IN POVERTY BY RACE 1959-1992



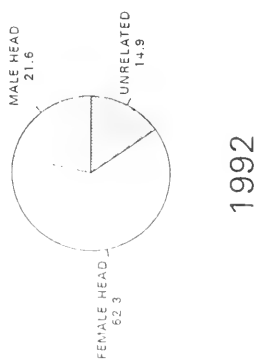
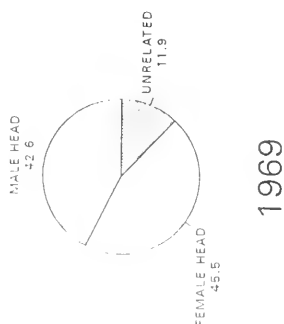
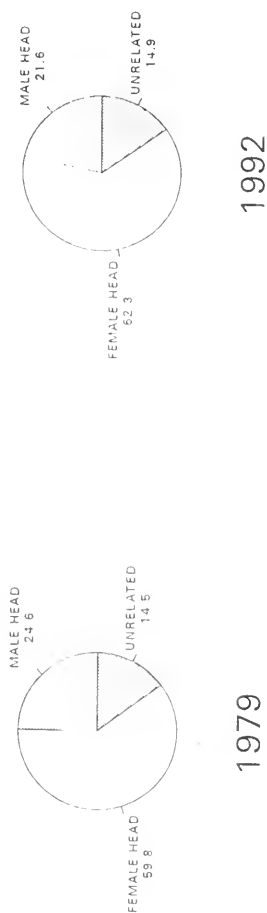
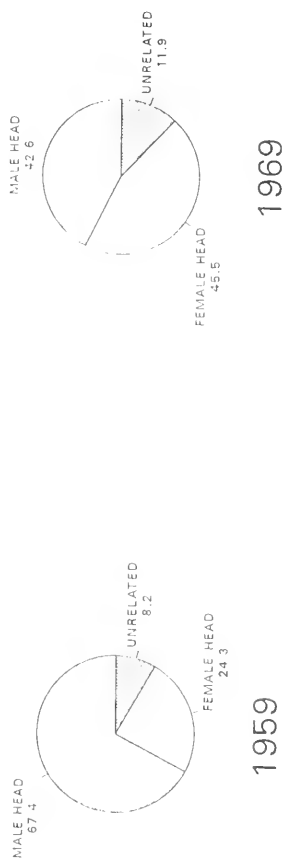
NUMBERS IN MILLIONS
SOURCE "POVERTY IN THE UNITED STATES 1992"

3. PERCENT OF HOUSEHOLDS WITH INCOME UNDER \$5000



SOURCE: "POVERTY IN THE UNITED STATES 1992"

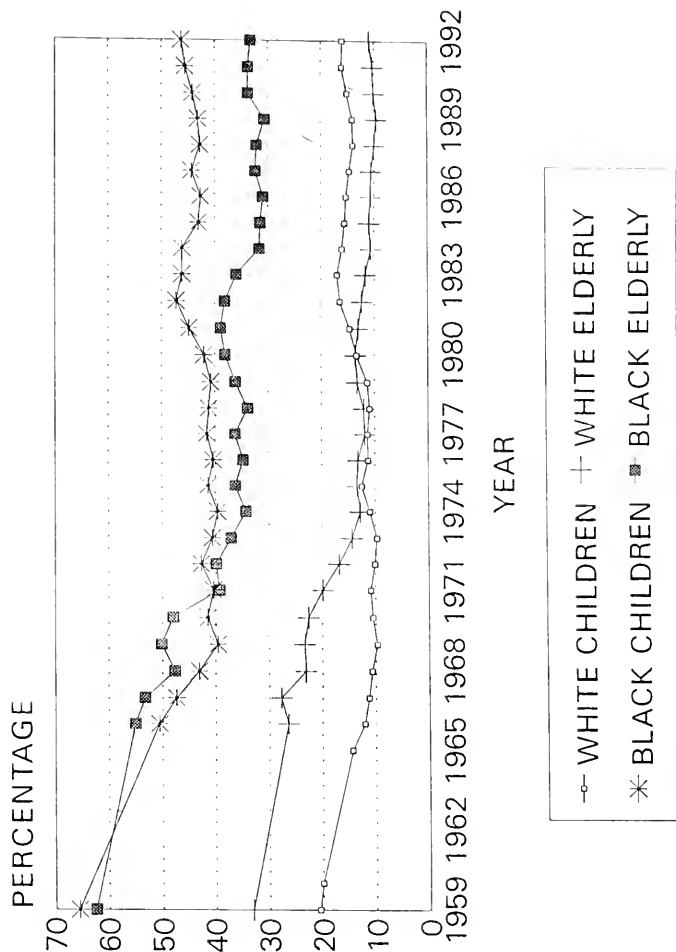
4. LIVING ARRANGEMENTS FOR POOR BLACKS



SOURCE: "POVERTY IN THE UNITED STATES 1992"

5. POVERTY RATES FOR ELDERLY AND CHILDREN

BY RACE 1959-1992



SOURCE: "POVERTY IN THE UNITED STATES 1992"

Mr. KOPETSKI. Ms. Pagani.

**STATEMENT OF RUTH PAGANI, PUBLIC POLICY
COORDINATOR, NATIONAL PUERTO RICAN COALITION, INC.**

Ms. PAGANI. Thank you, Mr. Chairman. I would like to give you an overview, essentially, on the status and causes of Puerto Rican poverty in the United States.

In July of this year—and I know we also had a gentleman from the Bureau of the Census who highlighted some of the trends and figures on poverty—there was some information that was released on the nature and extent of poverty in the United States, based on the 1991 Census income statistics. The statistics highlight the plight of the poor in this country, emphasizing that the African-American community suffers the highest rates in a number of categories, such as individual and family income and child poverty.

While the statement is true in relationship to all Hispanics, it fails to uncover the distressing reality that Puerto Ricans are more severely affected by poverty than the African-American community. In 1991, for instance, Puerto Ricans had the highest poverty rate of individuals in the Nation, close to 40 percent, and that is three times the national average.

At the same time, 36 percent of Puerto Rican families were families living in poverty, more than any other population group. Puerto Rican children also have the unfortunate distinction of being the poorest children in the Nation. In 1991 alone, 58 percent of all Puerto Rican children lived in poverty.

Puerto Ricans are also the most urbanized ethnic group in the country; 95 percent of them live in urban areas and 75 percent live in the inner cities. In turn, most of these cities have watched the deterioration of their low-skilled employment base in manufacturing and an explosion in poverty. Therefore, we contend that the major factors causing the deterioration of socioeconomic conditions of many Puerto Ricans have been structural rather than behavioral.

To fully understand the plight of this group, we must focus on factors such as economic restructuring—and I know the discussion has already started on that—the increasingly higher educational requirements of high-wage jobs, the impact of our public policies and discrimination.

For instance, the nine cities where the majority of United States Puerto Rican populations lived in 1980 lost almost 1 million manufacturing jobs between 1963 and 1982. That is a 44 percent decrease. These losses were in the very industries that typically employed Puerto Rican labor at that time—light industry in the Northeast, steel and related industries in the Midwest.

Budget cuts in social programs during the 1980s hit a Puerto Rican population already ravaged by deterioration of its economic base. These cuts were made in the very public services upon which Puerto Ricans have been forced to increasingly depend at the same time that the industries that employed them collapsed.

Discrimination also plays an important role in Puerto Rican poverty. In a recent study by Edwin Melendez, an economist at the Massachusetts Institute of Technology, he suggests that while differences in measurable characteristics, such as educational

retainment, explain most of the wage gap for Hispanic men and women, the effect of discrimination remains statistically significant. Thus, low-wage rates exist even after differences in age, education, and regional distribution are factored in. All of these statistics strongly suggest that the explanation for the high rate of Puerto Ricans is not solely based on behavioral factors.

For instance, since the 1970s, Puerto Ricans have consistently shown increasing rates of high school completion, rising from 36 percent in 1978 to 61 percent in 1992. College graduation rates have also shown strong gains, doubling between 1977 and 1992.

Thus, the distinctive feature of Puerto Rican poverty is not that it is intractable. Quite the contrary, the data shows fluctuations in the poverty rate for Puerto Ricans, in the middle of the 1980s decreasing between 1985 and 1988, but increasing thereafter. What is disturbing, despite these fluctuations, is the number of Puerto Ricans who are poor is intolerably high, and targeted public policies that could help are ineffective or nonexistent.

Other than benefiting from programs that protect citizens from utter destitution, such as Aid to Families with Dependent Children and Medicaid, Puerto Ricans have historically been ignored by the policy establishment, both locally and nationally.

Make no mistake, we applaud the administration's commitment to restructuring the current welfare system, the school-to-work transition and so on, as well as your own effort to promote legislation targeted to the revitalization of cities—community, economic and small business development. However, hope for the poor in the Puerto Rican community can only be brought about if the reform of our antipoverty programs recognizes the unique needs of this portion of the population.

Puerto Ricans are law abiding citizens, and they work hard to provide for their families. Their children have been serving in the defense of our country for the better part of this century. We believe that in order to reduce poverty and promote self-sufficiency among Puerto Ricans in the long term, quality investments should be made now.

Thank you. I will answer any questions.

Mr. KOPETSKI. Thank you for your testimony.

[The prepared statement follows:]

Statement of Ruth Pagani, Public Policy Coordinator
National Puerto Rican Coalition, Inc.
Before the
House Ways and Means Committee
Subcommittee on Human Resources
Hearing on Historical Trends in
the U.S. Poverty Rate and Family Income
October 26, 1992

Mr. Chairman, and members of the Subcommittee, my name is Ruth Pagani, and I am the Public Policy Coordinator at the National Puerto Rican Coalition. The National Puerto Rican Coalition is a membership association which represents over five hundred Puerto Rican community based organizations and leaders. NPRC's goal is to further the social, economic and political well-being of nearly six million American citizens of Puerto Rican descent throughout the United States and Puerto Rico. I wish to thank you for this opportunity to provide you with the National Puerto Rican Coalition's view of Puerto Rican poverty and its causes.

In July 1993, the Commerce Department released information on the nature and extent of poverty in the United States, based on 1991 income statistics.

The current statistics highlight the plight of the poor in this nation emphasizing that African-Americans suffer the highest poverty rates in a number of categories such as individual and family income and child poverty. While this statement is true in relationship to all Hispanics, it fails to uncover the distressing reality that Puerto Ricans are more severely affected by poverty than the African-American community.

To provide a brief summary of the characteristics of Puerto Rican poverty on the United States mainland, I would like to make the following points:

1. In 1991 Puerto Ricans had the highest poverty rate for individuals in the nation at nearly 40% of the total Puerto Rican population, compared to 33% for African-Americans, and 14.2% for the population at large;
2. Although Census figures for 1991 report that African-Americans had the highest percentage of families living below the poverty line, at 32%, Puerto Rican families had more of their families living in poverty at 36%.
3. Puerto Ricans are a highly urbanized group with 95% of all mainland Puerto Ricans living in urban areas and 75% living in central cities (mostly in the East and Midwest), representing the most urbanized ethnic group in the United States. Most of these cities have watched a deterioration of their low-skilled employment base in manufacturing and an explosion of poverty.
4. Puerto Rican children have the unfortunate distinction of being the poorest in the nation. A study of Latino child poverty conducted by the Children's Defense Fund, indicates that 48.4% of Puerto Rican children were poor in 1989, compared to 44% of African-American children. More recent Census data reveals further deterioration in the socio-economic status of Puerto Rican children with a poverty rate of 58% in 1991, compared to 46% in the African-American community.

With the exception of educational attainment, this pattern has been consistent; from the period of the "Great Society" programs through the "Reagan Revolution", Puerto Ricans fared worst among other U.S. minorities. As the current census data suggests, this trend continues into the 1990s.

We contend that the major factors causing the deterioration of the socio-economic conditions of Puerto Ricans have been structural rather than mere changes in behavior. To fully understand the plight of this group one must focus on factors such as economic restructuring and the increasingly higher educational requirements

of high-wage jobs, the impact of our public policies, and discrimination.

Economic Restructuring

The nine cities where the majority of U.S. Puerto Ricans lived in 1980 lost almost one million manufacturing jobs between 1963 and 1982, representing a 44% loss of manufacturing employment. These losses were in the industries that typically employed Puerto Ricans: light industry in the Northeast, and steel and related industry in the Midwest. The greatest loss of these jobs, 30%, occurred in the decade after 1972.

The concentration of poverty that resulted from these changes has hit Puerto Ricans especially hard. Of the fifteen cities with the highest rates of concentration of poverty in 1980, the four suffering the greatest deterioration since 1970 were all cities with large Puerto Rican populations, in order: Newark, New Jersey; New York City, New York; Chicago, Illinois; and Philadelphia, Pennsylvania.

The relationship that these massive economic changes have had on the socio-economic deterioration of entire communities is undeniable. And it is clear that Puerto Rican families have been more vulnerable than other minorities to the forces that have caused their income to plummet. We contend that the following factors have contributed to the higher vulnerability of Puerto Ricans.

Impact of Public Policies

The budget cuts in social programs during the 1980s hit a Puerto Rican population already ravaged by the deterioration of its economic base. These cuts were made in the very public services on which Puerto Ricans had been forced to increasingly depend at the same time that the industries which had employed them collapsed.

A seven city study conducted by the National Puerto Rican Coalition in 1983 found that Puerto Ricans suffered disproportionately from cutbacks leading to the reduction or elimination of supportive services such as child care, transportation and employment training. In New York City, Puerto Ricans were 30 percent of the participants in the CETA program in 1981, yet they experienced a 65% reduction in participation between 1981 and 1983. The experience in a smaller city was similar. In Hartford, Connecticut, where Puerto Ricans represented 26% of CETA participants in 1981, they suffered an estimated 79% cut in participation.

More recently, states like New York, Connecticut, Illinois, New Jersey and Massachusetts, where Puerto Ricans are concentrated, have frozen programs such as General Cash Assistance, reduced appropriations for low-income housing programs, and curtailed coverage of Medicaid services.

Discrimination

The most important reason for lower family incomes among Hispanics and African-Americans than among non-Hispanic whites is lower wage rates. This remains true even after differences in age, education, and regional distribution are controlled. While a significant proportion of wage differences can be attributed to human capital factors, the institutional context in which Hispanic workers are situated in the labor market plays a very important role. We believe that the industrial and occupational distribution of Puerto Ricans, combined with employer discrimination, results in a depression of their labor market gains.

A recent study by Edwin Meléndez, an economist at the Massachusetts Institute of Technology, suggests that while differences in measurable characteristics, such as educational attainment, explain most of the wage gap for Hispanic men and women,

the effect of discrimination is very significant for Hispanics. His regression analysis of 1980 census data revealed that in New York City, where one-third of all Puerto Ricans in the United States live, discrimination accounted for one-third of the wage differential for Puerto Rican men.

Educational Attainment

Although the educational attainment of Puerto Ricans continues to be low in comparison to that of whites, it has been rising steadily since the late 1970s, surpassing that of all Hispanics since 1988. Their labor force participation, however, has not kept pace with educational attainment. For example, after slight increases between 1985 and 1989, the labor force participation rate for Puerto Rican males decreased steadily between 1989 to 1991, from 70 to 66%.

These statistics strongly suggest that the explanation for the high rate of poverty among Puerto Ricans does not rest solely on behavioral factors. Since the late 1970s Puerto Ricans have consistently shown increasing rates of high school completion, from 36% in 1978 to 61% in 1992. College graduation rates show a similar pattern going from 4.2% in 1977 to 8.4% in 1992.

Single Female Households

A similar point concerning behavior can be made by looking at household formation. Although the proportion of Puerto Rican households headed by single women is high, the rate has been falling over time from 46% in 1986 to 40% in 1989 to 30.9% in 1992. The available indicators suggest that the formation of single headed households among Puerto Ricans has been decreasing over time. These rates are nonetheless high and aggravate the impact of structural factors.

Statistics show that between 1980 and 1987 the labor force participation rate of Puerto Rican female heads of household has remained steady at 35% compared to an increase among their African-American counterparts from 65 to 70% during the same period. The impact of this phenomenon on families is clear. In 1990, 64.4% of Puerto Rican families headed by females with no husband present were poor. In 1991, this proportion increased to 66.3%.

Conclusion

The distinctive feature of Puerto Rican poverty is not that it is intractable. The data shows fluctuations in the poverty rate for Puerto Rican families from 41% in 1985 to 31% in 1988. **What is disturbing is that despite such fluctuations the number of Puerto Ricans that are poor is intolerably high and the targeted public policies that could help them either are ineffective or nonexistent.** Other than benefitting from programs that protect citizens from utter destitution, such as Aid to Families with Dependent Children and Medicaid, Puerto Ricans have historically been relatively ignored by the policy establishment, locally and nationally.

Although significant numbers of Puerto Ricans in the United States have entered the economic mainstream, the fact still remains that the current poverty rate of 40% among Puerto Ricans is nearly three times the national average. This is a social phenomenon which deserves national attention and special concern. Concentrated in cities that suffered a collapse in the industries that employed them; experiencing a major breakdown of family and community links, as well as the ensuing isolation of individuals in increasingly smaller family units and the deterioration of their living environment; the ease of back and forth travel to Puerto Rico, coupled with the parallel economic and social crisis there; and the lack of institutions to perform the binding role that the Churches performed in African-American communities; all these factors have contributed to an economic deterioration that makes the Puerto Rican case specially troubling and deserving of attention.

With the Administration's commitment to restructuring the current welfare system as well as legislation before Congress targeted to the revitalization of cities, community economic and small-business development, low-income Americans may witness change. However, hope for the Puerto Rican community can only be brought about if the present welfare reform process recognizes the unique needs of this portion of the welfare recipient population. Any legislation designed to address this issue must do the following:

1. Recognize the greater scarcity of family labor among Puerto Ricans and ameliorate the impact this has in small business development efforts;
2. Establish programs to develop Puerto Rican entrepreneurship and promote self-employment;
3. Develop employment strategies for single mothers which provide for the greater breadth of child care needs of Puerto Ricans;
4. Increase the number of bilingual welfare counselors, social workers, and educators who are sensitive to the Puerto Rican culture so that they can better provide quality educational and social services to Puerto Ricans in need of assistance;
5. Insure that job training efforts bring the unemployed to the skill levels demanded by the growth industries in those cities where Puerto Ricans presently live;
6. Recognize discrimination as a significant variable affecting labor market gains. The effects of discrimination can be offset by affirmative action and pay equity policies. Through affirmative action Puerto Rican workers can receive equal treatment in hiring, promotion, and employment security. Through pay equity a poor job can be transformed into a good job;
7. Lastly, legislation must support urban initiatives that provide for small-business development, employment and training, and family services, which go beyond ameliorating the impact of poverty to promote economic stability and self-sufficiency.

Mr. Chairman, members of the Subcommittee, Puerto Ricans in the United States are law-abiding citizens who provide for their families. Puerto Ricans work very hard and their children have been serving in the defense of our country for the better part of this century. Studies of Puerto Rican welfare mothers conducted by the National Puerto Rican Coalition show that they appreciate the value of wage-work, that they have a commitment to family values, and are interested in any training that will get them good jobs.

To reduce poverty and promote self-sufficiency among Puerto Ricans long-term, quality investments must be made. The National Puerto Rican Coalition and the Puerto Rican community expect no more and no less from the federal government.

Once again thank you for the opportunity to testify. I would be happy to answer any questions.

Mr. KOPETSKI. Before I have questions, I would like to hear from Ms. Thompson.

Ms. THOMPSON. Thank you.

Are you calling on me now?

Mr. KOPETSKI. Yes, ma'am.

Ms. THOMPSON. Before I start mine, I would like to make a statement to Mr. Liederman as far as—senior citizens get rate increases in Social Security every year; except AFDC, they do not give even the comparison. We got an increase; but all that increase does for an indigent, which I am, is it increases my rate, my rent, and it also makes it harder for me to get my medications under this program. Just bear that in mind, please.

Mr. KOPETSKI. Your entire statement will be put in the record, and we ask that you try to summarize in about 5 minutes, if you would.

**STATEMENT OF BARBARA H. THOMPSON, INDIGENT
REPRESENTATIVE OF MONTGOMERY COUNTY, MARYLAND,
COMMISSION ON HEALTH**

Ms. THOMPSON. That will be fine.

I do appreciate you having this hearing and I having the honor and privilege of being here.

I will start now. As you know, in my statement I state that I am an indigent and an advocate for the indigent.

Great nations have fallen from Biblical times to the present. We must take a serious look at America as it is today—divided, sick, and on the brink of crumbling. Recognizing the need for reform and stability, I applaud you all for reaching out to the citizens and hearing our input.

We are only generations away from our forefathers who came to this country seeking freedom of speech, freedom of religion and the right to life, liberty and the pursuit of happiness.

Let's go back to the beginning. First, we conquered America, killing the Indians. Of the ones that are remaining, most are in poverty. Next we brought the Africans over as slaves and anyone caught teaching or trying to give an education to the slave was punished so that is one of the reasons why they are a little behind.

Then came Abraham Lincoln and the Civil War. Black America was freed; the poor white and freed black were left behind while others prospered. Black America and the remaining Indians were slower in learning.

A nation of independence began developing. The poor white and black worked for the more intelligent. More jobs were created—automobiles and airplanes production and manufacturing, scientists, inventions—and technology was ours.

Then the Depression years were ever present, but prior to World War II we were looked upon by other countries with envy. Our intelligence seemed superior—better planes, guns, warships, and finally the atom bomb. We saved countries, and the American dream was ours.

After the war, we took ourselves for granted—growth slowed—inventions, technology, production, everything. Other countries took our intelligence, our inventions, scientific knowledge, and tech-

nology, and they began developing them until their products became superior to ours.

Civil rights laws were passed, the blacks became Americans. Educated, with good paying jobs, the American dream was ours. In 1950, a dollar was worth a dollar.

Reverend King, Malcolm X, President Kennedy, Robert Kennedy, all assassinated. Regression began.

The rich started getting richer and the middle class disappeared to join others in poverty. Inflation began, the garment industry disappeared, exports decreased, imports increased, and our companies began leaving the country for cheap labor.

We became a divided country. Inflation, loss of jobs, poverty, waste, fraud, inadequate medical care and welfare systems. We have become a sick country.

Reversing current trends will not be easy.

From an indigent's point of view, we know more than most about needs which will lead us out of poverty. Contrary to overall belief, most of us do not want welfare.

Include our input in Government programs which involve us directly. We feel our suggestions are important. Employ us in task forces targeting resolution of inadequate programs dealing with health reform, education, employment and poverty.

Minorities and poverty have no color or gender. To end poverty, we have to look at the overall picture, not just color or culture.

We feel abandoned and forgotten. Doubletalk confuses our children. In school, they are told: Study hard, stay in school, and stay drug free. Success will come. They look for a quick fix.

Mr. KOPETSKI. Ms. Thompson, we are running short of time. Your full statement will be part of the record.

Ms. THOMPSON. So with company layoffs continuing, or jobs going out of the country, unemployment compensation runs the deficit higher with each extension.

Establish a clearinghouse which tracks, among other things, minority unemployment as well as unemployment due to layoffs.

Some companies have no intentions of rehiring. Tracking will locate these companies. Put the layoffs in job training with minorities and monitor closely available jobs in their field, even at a lesser salary or benefits; something is better than nothing. Should this individual refuse the job, terminate compensation. If a job is available, such as a mechanic, and he refuses that job because of the salary or the benefits, terminate his compensation. He need not continue in the program. Use the same "tough love" principle for the minority. Impose high penalties on companies leaving our country for cheap labor.

I invite you to come and stay in my home for a month and see how we live. Then you would realize we have got to come together, united, in this Nation and resolve the problems in Government and in the citizenry.

We just need help, and I feel I can help because I understand where the indigent is coming from. Now that I am in the welfare system, I know exactly what it is about, and I fight for their rights—regardless of color, we fight just as hard—in Montgomery County.

Thank you.

Mr. KOPETSKI. Thank you, Ms. Thompson. I think you make some good points.

[The prepared statement and attachment follow:]

STATEMENT OF BARBARA H. THOMPSON,
MONTGOMERY COUNTY, MD.

GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE

MY NAME IS BARBARA THOMPSON.

AS A RESIDENT OF LOW-INCOME HOUSING IN GERMANTOWN, MARYLAND, A RECIPIENT OF MEDICAL ASSISTANCE, AND OTHER LOW-INCOME PROGRAMS IT IS A PRIVILEGE AND AN HONOR TO APPEAR BEFORE YOU. BOTH AS AN INDIGENT AND AN ADVOCATE FOR THE INDIGENT.

GREAT NATIONS HAVE FALLEN FROM BIBLICAL TIMES TO THE PRESENT. WE MUST TAKE A SERIOUS LOOK AT AMERICA AS IT IS TODAY--DIVIDED, SICK AND ON THE BRINK OF CRUMBLING. RECOGNIZING THE NEED FOR REFORM AND STABILITY, I APPLAUD YOU, FOR REACHING OUT TO THE CITIZENS IN AN UNITED EFFORT TO TURN OUR COUNTRY AROUND.

ONLY GENERATIONS AWAY FROM OUR FOREFATHERS WHO CAME TO AMERICA TO SEEK FREEDOM OF SPEECH, RELIGION, AND THE RIGHT TO LIFE, LIBERTY AND THE PURSUIT OF HAPPINESS.

OTHER COUNTRIES ONCE LOOKED WITH ENVY AT AMERICA. WE WERE STRONG, UNITED AND LEADERS. WHAT HAPPENED?

LET'S GO BACK TO THE BEGINNING--FIRST WE CONQUERED AMERICA, KILLING THE AMERICAN INDIANS. ONLY A FEW REMAIN AND MOST IN POVERTY. NEXT, WE BROUGHT THE AFRICANS TO AMERICA, ENSLAVING THEM AND PUNISHING ANYONE CAUGHT EDUCATING THEM. WE BEGAN TO DEVELOP FINANCIALLY.

THEN CAME ABRAHAM LINCOLN AND THE CIVIL WAR. BLACK AMERICA WAS FREED. THE POOR WHITE AND FREED BLACK WERE LEFT BEHIND WHILE OTHERS PROSPERED. BLACK AMERICA AND THE REMAINING INDIANS WERE SLOWER IN LEARNING.

A NATION OF INDEPENDENCE BEGAN DEVELOPING. THE POOR WHITE AND BLACK WORKED FOR THE MORE INTELLIGENT. STABILITY AND WEALTH WAS DEVELOPING. MORE JOBS WERE CREATED, AUTOMOBILES AND AIRPLANES PRODUCTIONS AND MANUFACTURING, SCIENTISTS, INVENTIONS, AND TECHNOLOGY WAS OURS.

THEN THE DEPRESSION HIT--AGAIN A REGRESSION.

PRIOR TO WORLD WAR II, WE WERE STILL LOOKED UPON WITH ENVY. OUR INTELLIGENCE SEEMED ALMOST SUPERIOR. BETTER PLANES, BETTER GUNS, BETTER WARSHIPS, AND FINALLY THE ATOM BOMB. WE HELPED SAVE AND LIBERATED COUNTRIES, AND DESTROYED HITLER. THE AMERICAN DREAM WAS AT OURS, WE PROSPERED.

AFTER THE WAR WE SLOWED IN GROWTH AND TECHNOLOGY.

OTHER COUNTRIES TOOK OUR INTELLIGENCE, INVENTIONS, SCIENTIFIC KNOWLEDGE AND TECHNOLOGY. THEY BEGAN DEVELOPING UNTIL THEIR PRODUCTS BECAME SUPERIOR TO OURS.

CIVIL RIGHTS LAWS WERE PASSED. THE BLACKS EARNED THE RIGHT TO BECOME AMERICANS. EDUCATION. WITH GOOD PAYING JOBS THE AMERICAN DREAM WAS OURS. IN 1950 ONE DOLLAR WAS WORTH A DOLLAR.

REV. KING, MALCOLM "X", PRESIDENT KENNEDY AND BOBBY KENNEDY ALL ASSASSINATED, AMERICA BEGAN TO REGRESS.

THE RICH STARTED GETTING RICHER AND THE MIDDLE-CLASS DISAPPEARED TO JOIN US IN POVERTY. INFLATION BEGAN TAKING OVER, OUR GARMENT INDUSTRY DISAPPEARED, EXPORTS DECREASED, IMPORTS INCREASED, OUR COMPANIES BEGAN LEAVING THE COUNTRY FOR CHEAP LABOR.

WE BECAME A DIVIDED COUNTRY. INFLATION, LOSS OF JOBS, POVERTY, WASTE, FRAUD, INADEQUATE MEDICAL AND WELFARE SYSTEMS, WE HAVE BECOME A SICK COUNTRY.

THE DOLLAR IS NO LONGER A DOLLAR, BUT 18 CENTS.

OUR COUNTRY IS DECLINING. A REVERSAL CALLS FOR PROMPT ATTENTION. REVERSING CURRENT TRENDS WILL NOT BE EASY.

FROM AN INDIGENT'S POINT OF VIEW, WE KNOW MORE THAN MOST ABOUT NEEDS WHICH WILL LEAD US OUT OF POVERTY. CONTRARY TO OVERALL BELIEF, MOST OF US DO NOT WANT WELFARE.

INCLUDE OUR INPUT IN PROGRAMS WHICH INVOLVE US DIRECTLY. WE FEEL OUR SUGGESTIONS ARE IMPORTANT. EMPLOY US ON TASK FORCES TARGETING RESOLUTION OF INADEQUATE PROGRAMS DEALING WITH HEALTH REFORM, EDUCATION, EMPLOYMENT AND POVERTY.

INVESTMENT IN JOB TRAINING, EDUCATION AND MEETING OUR NEEDS WILL BE COST-EFFECTIVE.

MINORITIES AND POVERTY HAVE NO COLOR NOR GENDER. TO END POVERTY WE HAVE TO LOOK AT THE OVERALL PICTURE--NOT JUST COLOR OR CULTURE

WE FEEL ABANDONED AND FORGOTTEN. DOUBLE TALK CONFUSES OUR CHILDREN. IN SCHOOL--STUDY HARD, STAY IN SCHOOL AND STAY DRUG-FREE. SUCCESS IS YOURS.

THEN THE REALITY--DESPAIR, FRUSTRATION, LOSS OF HOPE AND MOM'S TEARS. THE CHILD FEELS THE PAIN. WORST OF ALL, SHE FEARS SEEING HER CHILD DEAD--LYING IN A BLOOD BATH.

WHOM DOES THE CHILD BELIEVE? WE KNOW. LOOKING FOR A QUICK FIX, OUR CHILD IS DRAWN INTO THE DRUG WORLD, CRIME, JAIL AND/OR DEATH.

CRIME IS A DERIVATIVE OF POVERTY--DIMINISH POVERTY AND CRIME DIMINISHES. WE FEEL NO ONE CARES ENOUGH. THIS IS THE EPITOME OF POVERTY--WORSE, WE LET IT HAPPEN AND BLAME IS SHARED BY EVERYONE. ATTITUDES HAVE TO CHANGE.

THE LATEST CENSUS SHOWED POVERTY RATE AT APPROXIMATELY 37 MILLION. A PROBLEMATIC CENSUS--THE NUMBERS COULD BE HIGHER.

INFORMATION IS POWER. ITS USAGE MAKES A DIFFERENCE. A COMPUTERIZED CLEARING HOUSE QUICKLY ESTABLISHES ACCESSIBLE NETWORKING AND DISTRIBUTION OF INFORMATION.

TRACKING A RUNAWAY FATHER BRINGS CHILD SUPPORT. QUALITY JOBS ENDS POVERTY. IRRESPONSIBILITY, POVERTY AND FRAUD IS EVERYWHERE. NETWORK TRACKING DIMINISHES FRAUD.

TRACKING COMPANIES COULD BE APPROACHED WHO ARE WILLING TO OFFER EMPLOYMENT TO THE INDIGENT WITH "ON-THE-JOB" TRAINING. I HAVE ATTACHED SEVERAL "TOUGH-LOVE" INCENTIVE PROGRAMS BENEFICIAL BOTH TO THE COMPANY AND THE INDIGENT.

ONE EXAMPLE IS THAT A PORTION OF AN EMPLOYABLE INDIGENT'S WELFARE CHECK WOULD GO TO THE HIRING COMPANY. SHOULD THE INDIGENT QUIT WITHOUT DUE CAUSE; THE MONEY WOULD NO LONGER GO TO THE COMPANY NOR THE INDIGENT. THE INDIGENT FINDS GAINFUL EMPLOYMENT WHILE ENTITLEMENT PROGRAMS ALLOW A TRANSITION PERIOD FOR ADJUSTMENT. THIS "TOUGH LOVE" TYPE PRINCIPLE KEEPS THE INDIGENT WORKING. DAY-CARE AND OTHER BARRIERS ARE REMOVED.

WITH COMPANY LAY OFFS CONTINUING, OR GOING OUT OF THE COUNTRY, UNEMPLOYMENT COMPENSATION RUNS THE DEFICIT HIGHER WITH EACH EXTENSION.

SOME COMPANIES HAVE NO INTENTIONS OF REHIRING. TRACKING WILL LOCATE THESE COMPANIES. PUT THE LAYOFFS IN JOB-TRAINING, AND MONITOR CLOSELY JOB SEARCHING. AVAILABLE JOBS IN THEIR FIELD EVEN AT A LESSER SALARY--SOMETHING IS BETTER THAN NOTHING. SHOULD THIS INDIVIDUAL REFUSE THE JOB, TERMINATE COMPENSATION.

IMPOSE HIGH PENALTIES ON COMPANIES LEAVING THE COUNTRY FOR CHEAP LABOR.

THESE ARE JUST A FEW SUGGESTIONS. TO FULLY UNDERSTAND THE INDIGENT I INCLUDED INFORMATION ABOUT OUR LIFE-STYLE I FELT WAS NEEDED. MORE DETAILED INFORMATION IS ATTACHED FOR THE RECORD.

YOU ARE INVITED INTO OUR HOMES FOR A MONTH AND EXPERIENCE THIS LIFE. ONCE YOU HAVE, FIGHTING FOR IMPROVEMENTS WOULD BE STRONGER.

AGAIN THANK YOU AND YOUR PATIENCE.

ATTACHMENTINCENTIVE PROGRAMS1. GRANTS FOR SMALL BUSINESSES WITHIN THE HOME

- A. THERE ARE CURRENTLY CHAIN COMPANIES SUCH AS GIANT AND SAFEWAY FOOD STORES WHO PROVIDE COMPUTERS, VCR'S, AND OTHER MERCHANDISE TO THE SCHOOL SYSTEMS.

EXPAND THIS PROGRAM TO INCLUDE GRANTS ENABLING THE INDIGENT THE TOOLS TO START SMALL BUSINESSES WITHIN THEIR HOMES. FOR EXAMPLE, DESK TOP PUBLISHING AND WORD PROCESSING.

THE GRANT WOULD INCLUDE SOME TYPE OF INSTRUCTION COURSE.

- B. APPROACH COMPUTER COMPANIES DIRECTLY FOR THE SAME PURPOSE.
- C. LIMITED GRANTS ARE ALREADY AVAILABLE THROUGH INCENTIVE PROGRAMS THROUGH HUD.

2. ON-THE-JOB TRAINING THROUGH TOUGH LOVE FOR THE INDIGENT:

- A. COMPANIES WILLING TO EMPLOY A PARTIALLY TRAINED OR UNTRAINED INDIGENT WOULD RECEIVE MONEY TAKEN OUT OF AN INDIGENT'S WELFARE CHECK FOR ON-THE-JOB TRAINING.

TRAINING WOULD BE PROVIDED IN THE FOLLOWING MANNER:

- EXPERIENCED RETIRED, DISABLED AND INDIVIDUALS VOLUNTEER TIME TO WORK WITH INDIGENT AT THE JOB-SITE DURING THE TRAINING PROCESS
- COMPANY TRAINING TIME REDUCED
- INDIGENT FULLY UNDERSTANDS IF QUILTS FOR NO REASON; THE COMPANY NOR WELFARE RECIPIENT NO LONGER RECEIVES MONIES ALLOCATED FOR JOB TRAINING
- THE CLEARING HOUSE IS NOTIFIED OF INDIGENT RESIGNATION
- FORM IS DESIGNED FOR INDIGENT'S SIGNATURE ENSURING THAT THE PROGRAM HAS BEEN FULLY EXPLAINED AND UNDERSTANDS RULES AS SET FORTH
- RECIPIENT REALIZES EMPLOYMENT HAS BECOME A NECESSITY

INCENTIVE PROGRAMS.....CONTINUED.....3. DEVELOPMENT OF A PROGRAM FOR REMOVAL OF BARRIERS:

- A. AFFORDABLE DAY CARE PROGRAMS
- B. COUNSELLING FOR INDIVIDUALS WHO MAY NO LONGER BE ELIGIBLE FOR ENTITLEMENT PROGRAMS [BOTH WELFARE AND LOW-INCOME HOUSING] DUE TO EMPLOYMENT

4. DEVELOPMENT OF A TRANSITION PERIOD:

- A. A TIME-PERIOD IS PROVIDED BY LOW-INCOME HOUSING BEFORE RENT IS INCREASED
- B. A TIME-PERIOD FOR RELOCATION OF GAINFULLY EMPLOYED INDIVIDUALS WHOSE SALARY RENDERS THEM NO LONGER ELIGIBLE TO REMAIN IN LOW-INCOME HOUSING
- C. A TIME PERIOD BEFORE CUTTING WELFARE ENTITLEMENTS PROGRAMS

5. INCENTIVE SAVINGS PROGRAMS

- A. LOW-INCOME INDIVIDUALS IN HOUSING PROJECTS, WHEN PAY MONTHLY RENT, WOULD PAY [DEPENDING UPON FAMILY SIZE] \$1.00 TO \$5.00 EXTRA. THIS MONEY WOULD GO INTO A SAVINGS PROGRAM OPERATED BY A NON-PROFIT GROUP. THIS MONEY WOULD BE USED FOR INVESTMENTS [ONCE MONIES WERE LARGE ENOUGH]
- B. SCHOLARSHIPS FOR SMALL BUSINESSES OR EDUCATIONAL PROGRAMS
- C. SAFETY-NET WHEREBY MEMBERS COULD BORROW SMALL AMOUNTS FOR PERSONAL USE, I.E., MEDICATION, EMERGENCY FOOD, PHONE BILL, ETC.

6. INCENTIVE SAVINGS PROGRAMS-DEPARTMENT OF SOCIAL SERVICES

- A. SAME AS ABOVE, BUT DSS WOULD WITHHOLD VOLUNTARILY WHATEVER THE RECIPIENT DESIRED AND FOR THE SAME REASONS.
- B. THIS MONEY WOULD GO TO THE SAME NON-PROFIT GROUP.

7. SAVINGS PROGRAM THROUGH VOLUNTARY CHECK-BOX ON INCOME TAX BOX

- A. ANYONE WANTING TO DEFRAY THE COST OF JOB-TRAINING, GRANTS, WOULD VOLUNTARILY DONATE \$1.00.
- B. THIS MONEY WOULD GO TO THE SAME NON-PROFIT GROUP.

NOTE: I WOULD LIKE TO SEE ALL THE ABOVE IMPLEMENTED ON A NATIONAL BASIS

Mr. KOPETSKI. What we are trying to do is address poverty in America. It doesn't matter—gender, color, urban or rural—it shouldn't exist in this most powerful nation on Earth; and rather than making progress, we are losing ground.

All kinds of statistics are there, and behind the statistics are people; and we keep increasing the numbers of people, even though some of the statistics have flattened out. There are just more people in poverty in this country, and whether they are young or old, it doesn't matter. But we do know that there are some groups much worse off and not making as much progress as the general population in some of these areas.

With limited dollars—certainly, we do apply a lot of program dollars and tax incentives across the board in our population, but when we have just limited dollars, we bump into these questions of whether we should focus on the cities or if urban areas get more than the rural areas.

I happen to represent a lot of rural area. My emphasis has been that we need to have to address the needs of the rural poor, rural health care delivery.

And we have these debates here in Congress on how we slice the pie a little bit. And Ms. Pagani, what you are saying—and I don't want to put words in your mouth, but what I am getting out of all of this is that the best chance of economic security in the United States is to be born a white male.

Ms. PAGANI. I am not going to argue with you, but I don't know what it is like to be born a white male, so you are probably asking the wrong person.

One of the problems that we have—and I am speaking about the Puerto Rican community, but a lot of it is applicable to the Hispanic community—is that you have a movement of peoples that come to the United States. And Puerto Ricans are citizens, but the economic situation in Puerto Rico is very different than it is in many areas of the United States; and on average, it is worse off. The movement of people that come looking for jobs, if the jobs disappear, they don't have really anyplace else to go.

When my grandparents left Puerto Rico, there wasn't any work. The Depression never really had ended, and they came to the Northeast to work in factories. Those jobs don't exist anymore. Yet there are whole families that are still in the very same neighborhoods in the Bronx, where I was born, that are still in the barrio and where many of those people would be able to take a train to the garment district and get a job and buy a house; even if not in the nicest neighborhood at all, you were still able to look forward to being able to accomplish the American dream—to get there.

That situation for a lot of ethnic minorities, Hispanics, and African-Americans is rapidly deteriorating. Some of the public policies that have been established in the past, during the War on Poverty, and have been reevaluated and revamped over the last couple of decades are operating under existing assumptions about the existing labor market that is no longer there.

I think you probably are encountering the same sort of problems in terms of the rural poor; where they would move to, maybe several decades ago in the 1950s and 1960s, those opportunities no longer exist.

Unless there is a comprehensive attempt by the Federal Government to combine not only the safety net programs to be sure that people don't end up mired in poverty forever, as well as programs aimed at self-sufficiency and business development, we are not going to see a decrease in poverty in our lifetime.

Mr. KOPETSKI. Well, you see, there are other things, too. We have Federal policies and practices that affect my rural communities in terms of timber workers, where the job—the mill isn't going to re-open because we are not going to cut down any more old growth trees, for example. You find a one- or two-mill town, they may be black, white, or Hispanic, do they go to the city? Do we try to get factories to locate there? These are the issues that Congressman Rangel, for example, in setting up these Empowerment Zones and Enterprise Zones focused on the cities.

But we also recognize that we have these rural kinds of issues.

We are way out of time, and the staff has to get going to another hearing.

Let me just ask Mr. Liederman—and if somebody else wants to comment—on an area that it seems has not received much attention, and that is the juvenile justice system in this country. Do you have any quick thoughts about that segment of the population—

Mr. LIEDERMAN. Well, Mr. Chairman—

Mr. KOPETSKI. —and what we are doing or not doing?

Mr. LIEDERMAN. Again, it is the same issue, a big reason as to why so many kids enter the juvenile justice system has to do with poverty and its disproportionate representation there. You don't find many affluent kids going into the juvenile justice system. It is a system for poor kids, mainly a system for poor minority children.

Mr. KOPETSKI. That is sort of the alarm system?

Mr. LIEDERMAN. It is. There is a lot of overlap between the kids in the child welfare system and the kids in the juvenile justice system; a lot of the kids are indeed the same kids, and they move from one system to the other. They are mostly poor kids.

One of the things that will not work is to treat 14-year-olds as adults in court proceedings.

Mr. KOPETSKI. Would you make a distinction in terms of capital cases, murder cases?

Mr. LIEDERMAN. You can always make the exceptional case, but as a rule that is not the case. I have not worked with many 14-year-olds in my life, but I have worked with some who are thinking about what they are doing and thinking about whether they will be treated like an adult in court. That determines whether or not they do what they do.

What is missing, again, Mr. Chairman, is that there is hardly anything going on in the neighborhoods with these kids, there is hardly anything going on. I talked about a army of youth workers—we did that in the 1960s. I was one of the workers. We worked in public housing projects. We worked in low-income communities. We were there in large numbers, and it made a huge difference.

I am talking about role models. I am talking about people who have made it, who go back to their communities and can really do great work with kids.

You have to have a lot of other things, that some of my colleagues have talked about, that become part of the overall strategy

and the overall package. But without that connection to a lot of these kids, without the role model, who helps that kid get through the teenage years and through the tough years, we are going to see more and more kids entering the juvenile justice system.

Mr. KOPETSKI. Ms. McFate or Ms. Tollett?

Ms. MCFATE. Part of it is the system coordination at the local level and working together at the local level.

There is a project ongoing at the Joint Center for Political and Economic Studies where urban administrators are brought together to talk about the drug problem. We get exercised because we wrote up the scenario where a juvenile was in and out of the system, dealing drugs, and we had all these points where his family connected with the social service agencies, the heads of agencies at the State, the schools, welfare agencies; and they sat there, and in that scenario, they said he would fall through the cracks.

There is no way—none of us would get him because he was not severe enough in any of the things. There were all these signals and signs, but there was no emergency switch that got thrown to say that that is what it took before he would get taken into the system, if something happened with him, and the family would get the help they needed.

That is what we are dealing with, the kids on the cusp, where they can be saved; or they can be put into a juvenile detention center and turn out to be the best criminal they have ever seen 3 years from now. The system is just not working together effectively.

That is one of the problems I think that you get into when you start doing all the targeted programs instead of where there is different eligibility and the agencies don't have any incentives to work together. That is one of the things. So is making a lot of people really excited about the Empowerment Zones and the idea that you will find a way to get past those funding stream issues and try to get people to really share resources, because the local level, the turf battles are really problematic.

Ms. TOLLETT. I think this is another reason why we need to start looking at men in our family policies. With a lot of the juvenile delinquents—what we are seeing is the result of lack of men in their families. Boys need to have fathers around, and when you combine the high unemployment in our cities, and we don't see men working there, and we don't see men being the role models in charge, showing the boys how to be boys—even though we see increases in the delinquency by young females; that is a big problem—the fact that we have not looked at men as part of family policy and how to make sure that they stay in the loop as far as employment, as far as their responsibilities in the family.

And it is not just looking to them for child support, but it is considering them as part of the family.

At NBCDI we believe it is important to view children in the context of both parents. When you do that, you would pay attention to both parents and the needs of both parents to make that unit work and function.

Mr. KOPETSKI. Ms. Thompson.

Ms. THOMPSON. I just want to state that the comments made here have been very important, but working in nonprofit organiza-

tions, I have seen more and more in hearing experiences and others from networking, through community involvement is so important. Our children have to be taken out of the public housing communities more. They need recreation, arts and crafts, whatever, because of the pressures in school, home life, and welfare. It is a problem. When they get to the neighborhoods, they only see the despair of the parents. When a child that small gives up, crime and the drugs develop. Runaway fathers, of course—I don't care what color, for runaway fathers there may have to be a tracking system to assure child support. We need the government's help in some of the things that the volunteers in the communities are doing to lead the minority to self-sufficiency. A lot of us due to loss of housing or benefits do not trust the caseworker. They need to talk without fear. I would like to start an organization like "moot court" where an indigent wants to be a secretary and has no training. I would teach that person how to pick up the phone properly, file, use a computer, etc., over and over and over, and provide role models again.

Mr. KOPETSKI. And just a minute for Ms. Pagani.

Ms. PAGANI. No, thank you; I am fine.

Mr. KOPETSKI. Thank you.

The hearing is adjourned.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

**Testimony of the Community Service Society of New York on
Historical Trends in Poverty and Family Income**

submitted by:

**Linda R. Wolf Jones, D.S.W.
Director of Income Security Policy**

October 26, 1993

Thank you for this opportunity to submit testimony for the printed record on the subject of historical trends in the U.S. poverty rate and family income.

The Community Service Society of New York is an organization that has been working actively to improve the conditions of the poor for almost 150 years. One of the ways in which we carry out that mission is through analysis and advocacy of social policies in such fields as housing, education and income security. It is our concern for the economic well-being of the nation's poor in general, and the urban poor in particular, that underlies this statement to the Subcommittee.

We are only too aware that poverty is on the rise in the United States. (Although not the subject of this testimony, we feel compelled to note that poverty in urban areas such as New York City is both higher and faster rising than in the nation as a whole.¹) Public assistance caseloads have increased; a startling number of workers have incomes below the poverty level, even among those workers with a strong attachment to the labor market; and unemployment rates are intolerably high. The unemployment rates for minorities, women maintaining families, youth and less educated workers - i.e., population groups that are already disproportionately poor - are far higher than the rates for the general population.

PUBLIC ASSISTANCE CASELOAD TRENDS

Size

The AFDC caseload is generally influenced by trends in the national economy, growing during periods of economic decline, and remaining relatively stable in times of national economic growth. It is influenced also by population changes; as the national population continues to increase, the AFDC caseload has grown along with it. Currently, caseload numbers are at an all-time high, averaging more than 13.6 million recipients monthly in 1992 and expected to exceed 14 million this year.

The size of the AFDC caseload can be affected by changes in public policy as well. While absolute caseload numbers are at an all-time high, AFDC recipients as a percentage of the overall population has actually declined slightly since its peak in the mid-1970s. (This lower percentage has persisted despite the growth spurt in the caseload over the past few years that was fueled by the beginning of the most recent

national recession in 1989.) Public policies at both the federal and state level have likely contributed to this phenomenon, since the data show that the proportion of poor families headed by single parents has been growing at a rate much faster than the AFDC caseload. To begin, it is generally recognized that the changes enacted as part of the Omnibus Budget Reconciliation Act of 1981 (OBRA '81) reduced caseload size by limiting eligibility for recipients with earnings.² In addition, state need standards have not kept pace with inflation, declining by 15 percent in real terms between 1975 and 1991; this further reduced caseloads by lowering the inflation-adjusted income that applicants could have and still qualify for assistance.³ In contrast, a policy-related factor which may have actually increased caseloads slightly over the last few years is tied to the Immigration Reform and Control Act of 1986. The CBO suggests that this Act may have contributed to AFDC caseload growth as early as 1987. After this time, undocumented aliens no longer fearing deportation were able to begin claiming benefits for their United States born dependents. Further, aliens legalized under this Act were eligible to receive AFDC payments beginning in 1992.⁴

Demographics

In addition to economic and programmatic influences, critical trends in the country's demographic make-up have both enlarged and transformed the AFDC caseload. The number of female-headed families with children in the general population increased by 27 percent from 1979 to 1989; this construct now accounts for almost one quarter of all families with children. Within this group, the number of female-headed families that are poor grew by almost 40 percent overall from 1979 to 1989. While the number of female-headed families in poverty maintained by white and black women showed marked increases of 38 percent and 31 percent respectively, those maintained by Hispanic women soared by 79 percent over the same decade. This caused a surge in the proportion of AFDC adults who are Hispanic: Hispanics as a proportion of the adult caseload increased by 17 percent from 1979 to 1989, while both the white and the black proportions of the caseload declined.⁵

The number of families headed by women who have never been married - i.e., those women family heads who are the most likely both to be poor and to have the longest lengths of stay on AFDC - has also increased, in this case by over 160 percent from 1980 to 1990. This group now accounts for almost one third of all female-headed families. Divorce rates went up dramatically from 1970 to 1980, but have since levelled off. These patterns have also had an impact on the AFDC caseload: the proportion of single parent families on AFDC in the category of "no marriage tie" increased by almost 40 percent from 1979 to 1989, compared to a 25 percent decline in the proportion of parents in the "divorced or separated" category over the same decade.⁶

Earnings

AFDC mothers worked less and received less income from earnings in 1989 than they did ten years prior, related at least in part to reduced eligibility for families

with earned income as a result of OBRA '81.⁷ In 1979 about 13 percent of the caseload was employed (8 percent full time and 5 percent part time) and had non-AFDC earnings. By 1989 less than 7 percent of AFDC mothers were employed - fewer than 3 percent working full time - and had any earnings from income. The average monthly amount of income from earnings went from \$382 in 1979 to \$296 in 1989, a 25 percent decrease. Over the past decade or so, 80 percent of AFDC mothers have had no income source other than AFDC. The proportion of women "not seeking" work, many because they were needed at home, has been at least 60 percent since 1979 (with a notable high of over 80 percent in 1982).⁸

INCOME AND WAGE TRENDS FOR THE WORKING POOR

The likelihood that a year-round, full-time worker will have low annual earnings has been increasing steadily over the past decade. That single fact, combined with the growth in part-time and temporary jobs as a proportion of all jobs, makes it clear why it has grown increasingly more difficult for a worker to support his or her family without assistance (e.g., a second wage earner in the household or partial reliance on public benefits or private charity). Since the average earnings of women, minorities and young adults are lower than the overall averages for all workers, it stands to reason that members of these groups are even more likely to be counted among the working poor.

Both the number and proportion of year-round, full-time workers with low annual earnings rose sharply between 1979 and 1990.⁹ For purposes of the following discussion, low annual earnings are earnings less than the poverty level for a four-person family. The 1979 threshold for low annual earnings was \$6,905, corresponding to \$3.45 per hour for 50 40-hour weeks. The 1990 threshold was \$12,195, or \$6.10 per hour for the same amount of work. The difference in the thresholds reflects price movements over the period; the dollar amounts are indexed to the CPI.

In 1979, there were 7.8 million workers who fell into the low annual earnings category, representing 12.1 percent of all year-round, full-time workers. By 1990, the absolute number was 14.4 million (an 85 percent increase over 1979) and the proportion had risen to 18.0 percent (up 49 percent over the period). As high as these figures are, they would be much worse if they included people who were strongly attached to the labor market, but had not been fully employed (i.e., who had spent part or all of the year looking for work or who had worked less than a 35-hour week for involuntary reasons). When these workers and the year-round, full-time workers are added together, the data reveal a national economy in which more than a quarter of all workers strongly attached to the labor force had low annual earnings in 1990 (25.7 percent).

The data for women, youth and minorities show earnings far below the earnings levels for the overall labor force. Although the higher unemployment and/or part-time

work rates that are generally found in these population groups could have an impact on comparable earnings levels, the fact remains that a significant differential exists that is not related to the number of weeks or hours worked; it holds even when comparing only the earnings of year-round, full-time workers. Among all year-round, full-time workers, 18.0 percent had below-poverty-level earnings in 1990. However, the corresponding numbers for women, youth and minorities reveal that 24.3 percent of women, 43.4 percent of workers 18 to 24 years of age, 25.3 percent of blacks and 31.4 percent of Hispanics who worked year-round, full time in 1990 did not earn enough income to bring a family of four above the poverty line.

Since an increasingly smaller proportion of the work force can count on being fully employed all of the time, it is instructive in thinking about poverty, income trends and employment policies to look also at earnings data for all workers. Only 58.1 percent of all workers had sufficient earnings in 1990 to keep a four-person family out of poverty. The remaining 41.9 percent of the work force had annual earnings below the poverty level, even though 61 percent of those low earners had a year-round, full-time attachment to the labor force.

One definition of "working poor," developed by Bureau of Labor Statistics research staff in 1989, is "persons who devoted more than half of the year to working or looking for work and who lived in families with incomes below the official poverty level."¹⁰ BLS analyses indicate that both the number and percentage of workers and their families living in poverty despite substantial labor force efforts increased in 1990, with families maintained by single working women at the greatest risk of poverty as compared to all other working family constructs. Of the 11.3 million families maintained by women in 1990, 48 percent had one member in the labor force for more than half of the year, 29 percent had no member in the labor force, and 23 percent had two or more members in the labor force. The poverty rate for the female-headed households with one labor force participant was 22.2 percent; with no labor force participants, 74.0 percent; and with two or more labor force participants, 5.7 percent. The comparable rates in single parent families maintained by men were 12.0 percent, 37.2 percent and 2.2 percent respectively. For married-couple families, the respective percentages living in poverty were 9.1 percent, 12.8 percent, and 2.0 percent.

BLS researchers also identified "three major labor market problems that hinder workers and sometimes keep their earnings below the poverty line. The problems are unemployment, involuntary part-time work, and low earnings."¹¹ All three of these problems disproportionately affect women who maintain families, young workers and minorities to a greater or lesser degree. The first two of the issues, unemployment and part-time work, are discussed below. The low earnings issue, discussed briefly above, can be further explained by examining 1990 and 1991 Census data on median income by race, ethnicity, family construct and age.

The median income for white families, in 1991 constant dollars, was \$3P 468

in 1990 and \$37,783 in 1991, a decline in total value of 1.8 percent.¹² For black families, the median income was \$22,325 in 1990 and \$21,548 in 1991. Thus, the black median income, which was only 58 percent of white income in 1990 to begin with, lost a further 3.5 percent of its value over the year. Similarly, Hispanic families, from a 1990 starting point of 63 percent of the income of white families, saw a decline of 2.1 percent in the value of their income between 1990 and the following year (\$24,417 median income in 1990; \$23,895 in 1991).

It is common knowledge that female-headed families in general have far lower incomes than either single parent male-headed families or married-couple families. The disparity, however, can be startling. In 1991 constant dollars, the median income for female-headed families was \$17,645 in 1990 and \$16,692 in 1991. The median family income for other family constructs for the same years was: \$30,268 and \$28,351 for single parent male-headed families; \$31,539 and \$30,075 for married-couple families in which the wife was not in the paid labor force; and \$48,745 and \$48,169 for married-couple families in which the wife was in the labor force. Looking at the figures in another way, fully half of the approximately 11.7 million female-headed families in the nation - representing more than 5.8 million families - had incomes below \$16,692 in 1991.

Although many young workers are not trying to support a family on their earnings, others are heads of households. It is worth noting, therefore, that young working males (15 to 24 years of age) in 1990 and 1991 had median incomes of \$6,585 and \$6,281, respectively (again using constant 1991 dollars); the comparable figures for young working females were \$5,108 and \$5,197.

The discussion above makes clear that, for large numbers of poor families, the driving force behind the problem of low income is not a lack of attachment to the labor force. Many poor families are poor despite considerable work effort. They face such identified obstacles as unemployment, involuntary part-time work and low earnings. While these obstacles exist for all groups, for women, youth and members of minority groups they are frequently compounded by discrimination and by such other barriers as language difficulties and lack of work experience.

All of the income data above refer to gross cash income; the expenses associated with working take a large chunk out of these already meager amounts. In addition to payroll taxes and other general work expenses, low income working families often have high child care expenses. Child care frequently represents the most considerable work-related expense for a single mother in the labor force regardless of family income (although costs vary widely by geographic location and the type of care). Poor women, however, spend a much larger proportion of their income on child care than nonpoor women. In 1991, an employed mother with below-poverty income whose youngest child was under five years old spent approximately 25 percent of her income on child care; this compares to less than 9 percent for a nonpoor mother.¹³ (Employed women in the AFDC program receive an

income disregard for child care expenses and are eligible for up to a year of transitional child care benefits if they become ineligible for AFDC because of earned income. After that time, they must assume the costs of child care on their own.)

EMPLOYMENT AND UNEMPLOYMENT RATES

The size of the labor force in the United States has grown considerably over the past two decades, both in absolute numbers and as a percentage of the total population. The number of people in the civilian labor force rose from 82.8 million people in 1970 to 106.9 million in 1980 and 124.8 million in 1990. Part of the numerical increase is attributable to a growth in the size of the general overall population, part is due to an increase in the proportion of the population represented by the cohort generally considered to be of working age, and part is due to the movement into the labor force of people who might have remained out of it (by choice or necessity) in another era. The percentage of the working age population participating in the labor force grew over the 1970 - 1990 period from 60.4 percent to 63.8 percent to 66.4 percent.¹⁴

Although the nation moved into a downturn in the second half of 1990, at which point the percentage of the population participating in the labor force declined slightly, the long term trends have been upward for many years.¹⁵ A significant part of the growth is due to the entrance of women into the labor force in large numbers. Overall, the number of women employed full time grew from 30.8 million to 40.0 million between 1980 and 1990; the number employed part time grew from 11.3 million to 13.5 million over the same time frame. Virtually all of the growth in the number of full-time working females was found in the 25 to 54 years age bracket. For females working part time, the increases between 1980 and 1990 were spread more evenly among all age cohorts except teenagers. (Labor force participation rates for both males and females ages 16 to 19 have declined since 1980, a troubling trend which deserves attention, but which is outside of the immediate scope of this testimony.)¹⁶

Unemployment rates, while they cannot and should not be ignored for policymaking purposes, are more likely to be indicative of short-term shifts in the economy than they are representative of long-term trends and changes in society itself. Between 1970 and 1990, unemployment rates moved in a range that went from a low of 4.9 percent in 1970 and 1973 to a high of 9.7 percent in 1982. The unemployment rate for 1990 was 5.5 percent, rising to 6.7 percent in 1991 to reflect the weaker economy at that time.¹⁷ There has been no consistency over the past decade in the relationship between the adult male unemployment rate and the adult female unemployment rate, with the male rates being higher in some years and the female rates in others. On the other hand, the unemployment rates of blacks (specifically) and minorities (generally) were at least 5 percentage points higher than the rates for whites throughout the 1980s. In the early 1980s, the spread between black and white unemployment rates was roughly 9 or 10 percentage points, closing

to a 6 or 7 percentage point difference in the latter half of the decade. Similarly, the unemployment rate for part-time workers was consistently several percentage points higher than the rate for full-time workers and the rate for women who maintain families (regardless of race or full time/part time status) hovered about a percentage point higher than the part-time worker rate.¹⁸

Level of educational attainment is also a factor that affects unemployment rates in a large way. At a point in 1990 when all workers ages 25 to 64 had an unemployment rate of 4.4 percent, the rate for workers in that age cohort with less than a high school education was 8.5 percent. Gender and race issues compounded the problems caused by lack of a high school education: in the overall cohort of workers ages 25 to 64 with less than a high school education, males had an unemployment rate of 8.2 percent versus 9.0 percent for females; whites had an unemployment rate of 7.6 percent versus 13.3 percent for blacks. Completion of a high school education did not erase the racial inequities, but it considerably improved a worker's chances of being employed. Being black with a high school education still resulted in an unemployment rate of 9.5 percent (versus 4.2 percent for whites with a high school education), but that rate is almost 4 percentage points lower than the rate for less educated blacks. Interestingly, the attainment of a high school education did wipe out gender inequities. The unemployment rate for all women with four years of high school was 4.6 percent; for similarly educated men, it was 5.1 percent.¹⁹

One of the conclusions to be drawn from the data above is that more people have chosen or felt obliged to move into the labor force than have dropped out of it, even in the face of high unemployment rates and uncertainty about the availability of jobs. The long-term trend has been toward increased labor force participation for women. In general, women who maintain families, minorities (especially blacks), youths and less educated workers experience higher unemployment rates than the rate prevailing overall at any point in time; the problem becomes correspondingly worse in weak economic times.

SHIFTS IN DEMAND

While the overall number of jobs available in the nation has been on an upward trend over the long run (albeit with dips in the numbers in weak economic years), the jobs themselves have not been static with respect to the demands imposed by the labor market. On the contrary, there have been significant shifts in the proportion of permanent, full-time jobs to temporary and/or part-time work, in the number and types of jobs available by industry, and in the skills required for those jobs.

A dominant and troubling trend in the labor market in recent years has been the movement by employers away from full-time, permanent jobs and the concomitant growth of part-time and temporary work slots. Traditionally, a full-time job has been the most common way in this country to achieve a decent living standard, to have health care coverage for oneself and one's family, and to build up pension benefits for

the post retirement years. Some part-time and temporary work has always existed, but such jobs were assumed to be for people who did not want or need, or whose schedules did not allow for, full-week, year-round work - such as mothers of young children or other "nonworking" women, students, and people in the creative arts. When people who want "regular" (i.e., permanent full-time jobs) either cannot find work or are increasingly forced to take part-time or temporary work because they cannot find anything else, it becomes necessary to question the ability of a nation's economy to support its population through the functioning of the labor market.

Both the trend toward use of part-time and/or temporary workers in place of full-time permanent employees and the move away from the production of goods into greater production of services have increased the likelihood that workers will be impoverished despite their attachment to the labor force. Part-time and temporary workers generally earn less and receive fewer benefits than full-time permanent workers; service jobs pay less on the average than jobs in the goods-producing sector (e.g., mining, construction, manufacturing). These shifts in labor market demand are not short-term phenomena. They represent major changes in the national economy and, as such, they may be expected to have continuing negative repercussions on poverty trends and family income.

POLICY RECOMMENDATIONS

In announcing this hearing, the Subcommittee indicated an interest in testimony on employment, public assistance and urban policies which could reverse the long-term historical trends in family income and poverty. We offer the following policy directions in response to that interest; they represent key ways in which we believe AFDC and labor market policies should move.

We believe that national policies need to move simultaneously in three directions: 1) expanding the number of public assistance recipients who have private sector labor market jobs; 2) insuring an adequate, steady stream of income for labor market participants; and 3) improving the functioning of the labor market with respect to the opportunities available for public assistance recipients and similarly disadvantaged populations. [These points are, of course, interrelated. If the labor market offered more opportunities for disadvantaged populations (#3), more people would be working in lieu of needing to resort to public assistance to support themselves and their families (#1).] In general, we would leave to the labor market experts the task of developing the necessary detailed and specific recommendations for accomplishing these aims. However, given our concern and expertise from a social welfare perspective, we would be remiss if we did not include at least the following suggestions for policy changes that would help to reduce the number of people (especially single mothers and children) who now live in poverty:

- Policies should be encouraged that bring more public assistance recipients into the private sector labor market, recognizing

however that many recipients who are labor market participants will nevertheless be unemployed at times or will be working on a part-time basis. Such policies might include early and intensive case management, required job search assistance, and provisions for keeping more earned income.

- In addition to facilitating the entry of public assistance recipients into the labor market, policies that make it easier for single working mothers to stay in the labor force must be encouraged. Such policies would include incentives/funding for the provision of day care, insurance against loss of health care, and government offices and clinics that are open evenings and Saturdays for the conduct of official and personal business.

- Policies are needed that would insure a temporary, continuing income stream for low-wage labor market participants who become unemployed without unemployment insurance coverage, who are between temporary jobs, or who incur other labor market difficulties that result in a loss of earned income.

- Policies for income packaging - encompassing a variety of private and public sources which might include earned income, unemployment insurance, child support, an assured child benefit, tax credits, public assistance, other cash benefits or other forms of income - should be investigated as a way of responding to the individual needs of poor families.²⁰ (We acknowledge that this proposal would call for a major restructuring of policy, but we believe that thinking as broadly as possible about how to alleviate poverty could yield worthwhile results.)

Thank you, again, for this opportunity to express our views. We look forward to continuing to work with you on questions of income security and related issues.

ENDNOTES

1. Terry J. Rosenberg, Poverty in New York City, 1991: A Research Bulletin (New York: Community Service Society of New York, 1992).
2. Congressional Budget Office, CBO Staff Memorandum: A Preliminary Analysis of Growing Caseloads in AFDC, December 1991.
3. "Trends in AFDC Benefit Levels," testimony of Linda D. Giannarelli, representing The Urban Institute, before the Subcommittee on Human Resources, Committee on Ways and Means, United States House of Representatives, 11 March 1993.

4. Congressional Budget Office, CBO Staff Memorandum: A Preliminary Analysis of Growing Caseloads in AFDC.
5. 1992 Green Book, Table 29, pp. 669-670 and Table 58, pp. 1162-1163.
6. 1992 Green Book, Table 3, p. 1078 and Table 29, pp. 669-670.
7. 1992 Green Book, p. 671.
8. 1992 Green Book, Table 30, p. 671.
9. Unless otherwise noted, the data in this section are from: U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Consumer Income, Series P-60, No. 178, Workers with Low Earnings: 1964 to 1990, March 1992.
10. Jennifer M. Gardner and Diane E. Herz, "Working and poor in 1990," Monthly Labor Review, December 1992, pp. 20-28. The definition cited was developed by BLS researchers Bruce Klein and Philip Rones.
11. Gardner and Herz, "Working and poor in 1990."
12. U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, No. 180, 1991. All of the reference data in this and the following two paragraphs are from this report.
13. 1992 Green Book, Table 8, p. 944.
14. Statistical Abstracts 1992, Tables No. 608 and 612.
15. Statistical Abstracts 1992, Table No. 608; Steven E. Haugen and Joseph R. Meisenheimer II, "U.S. labor market weakened in 1990," Monthly Labor Review, February 1991: 3-16.
16. Statistical Abstracts 1992, Table No. 626.
17. 1992 Green Book, p. 533.
18. 1992 Green Book, p. 537.
19. Statistical Abstracts 1992, Table No. 637.
20. Elaboration on the concept of income packaging may be found in: 1) the statement of Linda R. Wolf Jones before the Working Group on Welfare Reform, Family Support and Independence (Washington, D.C.; August 19-20, 1993), and 2) the paper presented by Heidi Hartmann and Roberta Spalter-Roth at the Women and Welfare Reform conference (Washington, D.C.; October 23, 1993).

**STATEMENT OF SONIA M. PEREZ,
NATIONAL COUNCIL OF LA RAZA**

I. INTRODUCTION

The National Council of La Raza (NCLR) appreciates the opportunity to submit this statement on trends in the U.S. poverty rate.

NCLR is the largest constituency-based national Hispanic organization and exists to improve life opportunities for the more than 22 million Americans of Hispanic descent. NCLR acts as an umbrella for more than 160 affiliated Hispanic community-based organizations which together serve 37 states, Puerto Rico, and the District of Columbia, and reach more than two million Hispanics annually through a range of services.

This statement provides an overview of recent, important trends in Hispanic poverty; explores the various factors contributing to the high rates of Latino poverty and its increase over the past decade; touches on the impact that the Hispanic community's status will have on the country's economic growth and productivity in the next century; and offers recommendations that would contribute to improving the socioeconomic status of the U.S. Hispanic population.

As a point of clarification, the terms Hispanic and Latino are used interchangeably throughout this testimony.

II. DEMOGRAPHIC OVERVIEW AND CURRENT SOCIOECONOMIC STATUS

The poverty data that were released by the Census Bureau on October 4 demonstrate that the recent recession, in addition to other factors, has taken its toll on the economic status of the Latino community -- recently projected to become the largest minority by 2010. Data from the 1990 Census show that currently, about one in 11 Americans is Hispanic. Their demographic status reflects a diverse population with significant socioeconomic problems, despite a strong connection to the workforce.

The Hispanic population includes four major groups: Mexican Americans, the largest subgroup; Puerto Ricans; Cubans; and Central and South Americans. Hispanics live in every part of the U.S., but are heavily concentrated in five key states, including California, Texas, New York, Florida, and Illinois; in New Mexico, California, and Texas, Hispanics constitute more than a quarter of the state population.

According to the Census Bureau, Hispanics are younger, on average, than other Americans and are more likely to live in households with other family members. Following the trend of all groups over the past decade, a growing number of Hispanic children live with only one parent; in most cases, these families are headed by women. Census data indicate that 25.9% of all Hispanic families were headed by women in 1992, compared to 17.6% of White and 54.5% of Black families.

Four pieces of economic data help to illustrate the current status of Hispanic families. First, Hispanics are active participants in the workforce; Hispanic men are more likely to be working or looking for work than either Black or White men. In 1992, 79.6% of Hispanic and 74.3% of non-Hispanic males were in the civilian labor force. The labor force participation rate of Hispanic women is slightly less than that of White or Black women, although it has been increasing in recent years. Second, both Hispanic males and females are most often employed in low-paying jobs with limited opportunities for advancement and few benefits, such as health insurance. Census data show that in 1992, about one in nine Hispanic males (11.4%), compared to more than one in four non-Hispanic males (27.4%), were employed in managerial or professional jobs -- which in 1992 had median weekly earnings of \$655. By contrast, 27.5% of Hispanic men, compared to 19.2% of non-Hispanic men, were employed as operators, fabricators, and laborers -- with median weekly earnings of \$357. Third, because Hispanic workers, on average, have earnings far below those of non-Hispanics, the median family income gap between Hispanics and Whites is growing wider; the gap was \$11,895 in 1980 and \$15,355 in 1991. Finally, partly as a result of these

factors, more than one-fourth (29.3%) of the Hispanic population and 26.2% of Hispanic families lived below the federal poverty line in 1992. In comparison, 12.8% of non-Hispanics and 10.2% of non-Hispanic families were poor in 1992.

In sum, the Hispanic population is rapidly growing, diverse, and faces disproportionate socioeconomic disadvantage. While the Hispanic population is concentrated in certain states, these states are located in every region of the country. Heavily urbanized, Hispanics represent a significant minority and even a majority in a growing number of central cities throughout the country -- but one whose strong connection to the world of work does not easily translate into socioeconomic stability or mobility. The youthfulness and rapid growth of the U.S. Latino community assure that it will become a growing component of the nation's overall population, labor force, and school population in the century to come. Therefore, it is imperative that federal anti-poverty efforts appropriately address the needs of Latinos.

III. AN OVERVIEW OF IMPORTANT POVERTY TRENDS AND STATISTICS

A report released by NCLR in July 1993, *State of Hispanic America 1993: Toward a Latino Anti-Poverty Agenda*, found that the disadvantaged socioeconomic situation facing Hispanics can largely be explained by the poverty of four groups:

- **The Working Poor.** A significant proportion of poor Hispanic families have an adult who works full-time, year-round. In 1991, 27.5% of all Hispanic families below poverty had at least one year-round, full-time worker, compared to 21.8% of White and 11.9% of Black families in poverty.
- **Female-Headed Households.** Hispanic female-headed families have the highest poverty rates of all family types. Almost half of Hispanic single-mother families (49.7%) lived in poverty in 1991. Mainland Puerto Rican female-headed households had the highest poverty rate, with two-thirds (66.3%) of these families in poverty. By comparison, one-third (31.7%) of non-Hispanic single mother families were poor.
- **Puerto Ricans.** Among Hispanic subgroups, families of Puerto Rican origin are the most likely to be poor. Recent Census data show that 35.6% of Puerto Ricans on the U.S. mainland are living below the poverty line, compared to more than one in four Hispanic families (26.5%) and one in ten non-Hispanic families (10.2%).
- **Children.** Although persons under 18 years of age represent more than one-third (34.7%) of the Hispanic population, almost one-half (48.8%) of the Hispanic poor are children. In 1992, two of every five (39.9%) Latino children were poor, compared to almost half of Black (46.6%) and about one in six (16.6%) White children. Moreover, more than half of all Puerto Rican children (57.9%) lived below the poverty line.

These findings build on additional NCLR poverty research from 1990 which illustrates that Hispanics are the only racial/ethnic group to have experienced no improvement in their socioeconomic status between 1980 and 1990, when other groups experienced at least moderate gains. Several trends in Hispanic poverty since 1980 are important to note, including stagnating income levels and high poverty; no improvement in socioeconomic status for single-mother families; deepening hardship among married-couple families; widening income disparity between Hispanics and Whites; and unequal benefits from education.

Recent poverty statistics released by the Census Bureau augment these findings and indicate that poverty has increased for all population groups in the country. For Hispanics, in particular, the data show:

- **A significant decrease of real median income among Hispanic households since 1989.** The real median household income of Hispanics declined by 7.9% between 1989 and 1992, from \$24,803 to \$22,848.
- **An increase in the Hispanic poverty rate and in the number of poor Hispanics.** Between 1989 and 1992, the number and rate of Hispanics in poverty increased from 5.4 to 6.7 million and from 26.2% to 29.3%. By comparison, the poverty rate of Whites increased from 10.0 % to 11.6% during that time.
- **A disturbingly high rate of Hispanic child poverty.** About two in every five Hispanic children under age 18 – or 39.9% – were poor in 1992, compared with 46.6% of Black and 16.9% of White children.
- **Unequal benefits from education.** Almost one in five (19.4%) Hispanic householders who were high school graduates were below the poverty level in 1992, compared to more than one in four (28.4%) African American and less than one in ten (8.4%) Whites with high school diplomas.

Some of the data released show no statistically significant increases in poverty or decreases in income for Hispanics from the previous year; taken together, however, these data confirm that, despite their connection to the workforce, U.S. Hispanics face serious social and economic obstacles.

IV. FACTORS ASSOCIATED WITH THE INCREASES IN LATINO POVERTY

Many factors contribute to the low income levels of Hispanic workers and the growing rates of poverty among Latino families and children. The most significant factors which help to explain Hispanic poverty include:

- **Low levels of education.** Hispanics are among the most undereducated racial/ethnic groups in the country. Hispanic educational attainment has increased in absolute terms since 1970, but the gap between Hispanics and non-Hispanics continues to be wide. Compared to Blacks and Whites, Hispanics enter school later, leave school earlier, and are less likely to complete high school and enter or complete college. To illustrate, as of 1992, a little more than half of all Hispanics 25 years old and over (52.6%) compared to four-fifths of non-Hispanics 25 years old and over (81.5%) had completed four years of high school or more. Moreover, almost one in ten Hispanics (9.3%), compared to almost one in four non-Hispanics (22.3%) had completed four years of college or more.
- **Concentration in low-wage work.** As a group, Latinos are concentrated in low-wage, low skill jobs which lack important benefits and are overrepresented among the working poor. In 1992, one in five (20.5%) Hispanic married-couple families with children and with one or more workers lived below the poverty line, compared to 6.7% of White and 12.1% of Black comparable families. In addition, almost half (52.0%) of Hispanics had individual incomes below 175% of the poverty level (\$14,335) in 1992, compared to 56.9% of Blacks and 29.0% of Whites.
- **Changes in the labor market and high unemployment.** A key factor in the poverty of the Hispanic working poor has been a shift in job creation from manufacturing to the service sector. Since 1979, almost nine out of every ten new jobs created have been in retail trade, personnel, and business and health services, which are among the lowest paying industries. Hispanics have been forced to find jobs in this sector, where their skills are not always transferable. These changes, coupled with the recent recession, have contributed to high levels of unemployment among Hispanic workers. The Hispanic unemployment rate in October 1992 was 13.9%, compared to 6.5% for Whites. Currently, 9.7% of Hispanics are unemployed, compared to 5.9% of Whites.

- **Family structure.** An increase in the proportion of Hispanic single-mother families over the past decade, as well as their low education, limited work experience, concentration in part-time and/or low-wage work, lack of child care, lack of health care, and limited child support contribute to high Hispanic poverty rates. Almost one quarter (24.4%) of Hispanic families are maintained by women and half (49.7%) of these families lived in poverty in 1991. The economic challenges of raising a family are great, particularly for Hispanic women who lack adequate education and training.
- **Employment discrimination.** Hispanics suffer from substantial levels of discrimination in education, employment, and housing, yet receive minimal attention from federal civil rights enforcement agencies. According to an NCLR report, *The State of Hispanic America 1991: An Overview*, studies show that Hispanics are now more segregated than Blacks in inner-city schools, and experience significant discrimination in employment and housing. Yet the federal agencies responsible for protecting Hispanic civil rights continue to give low priority to Hispanics in outreach, education, and handling of complaints.

Finally, analysis of available Census data show that immigration does not appear to play a significant role in either the prevalence of economic disadvantage among Hispanics or the wide income and poverty gaps between Hispanics and Whites. Although foreign-born Hispanics have slightly higher poverty rates and lower median incomes than U.S.-born Hispanics, the most significant economic differential lies between Hispanics and Whites. According to the 1990 Census, almost two-thirds of all Hispanics were born in the United States. Following the 1970s -- a decade of substantial Hispanic immigration -- 1980 Census data on foreign-born Hispanics indicated only a slight depression in measures of Hispanics' overall economic status in that year. Data from the 1990 Census on the poverty of native-born and foreign-born Hispanics have not yet been released, but 1980 data show that native-born Mexicans were still almost three times as likely as Whites to be poor. This suggests that even with reduced immigration, Hispanic poverty would remain much higher than that of Whites.

V. RECOMMENDATIONS

A recent NCLR analysis suggests that poverty in the Hispanic community is persistent, but not intractable. In fact, poverty in the Latino community appears to be amenable to policy intervention and can be ameliorated by substantial public investment, a commitment to equitably serve Latinos, and considerable self-help efforts by the Hispanic community.

While Hispanic poverty is a complex phenomenon requiring action on many fronts, NCLR's analysis shows that at least four public policy strategies can have a significant impact on reducing Latino poverty. Specifically:

- **Increasing educational attainment levels appears to have the most significant effect on Hispanic poverty.** Strategies which help to equalize educational levels and narrow the gap between Hispanics and Whites represent a logical approach to measurably reducing Hispanic poverty. However, even if educational outcomes for Hispanics were equalized to levels comparable to those of Whites, Hispanic poverty would still be significantly greater than for White non-Hispanics.
- **Addressing employment discrimination cannot be ignored as a major issue in Latino poverty.** Research has shown that the impact of discrimination on Hispanic poverty is significant. Effective anti-poverty efforts for the Hispanic community must recognize and address discrimination.
- **Making work more rewarding can be both effective and attainable.** A substantial segment of the Hispanic poverty population consists of the working poor and their families. While the growth and persistence of poverty is partly explained by structural changes in the economy, Hispanics' reduced after-tax earnings are also

partially attributable to public policies — including higher, regressive federal payroll and state and local taxes — which diminish the value of work. The expansion of the Earned Income Tax Credit, minimum wage increases, and the creation of jobs offering adequate wages and benefits are initiatives which appear to be very effective in reducing Hispanic poverty.

- **Guaranteeing affordable housing through the provision of a housing subsidy can be a surprisingly useful tool in fighting poverty.** NCLR's analysis has shown that a housing affordability subsidy, which would ensure Hispanics spent no more than 30% of their income on housing, would help to reduce Hispanic poverty.

These approaches hold promise as public policy strategies to reduce Hispanic poverty, but some present challenges that almost certainly require multiple policy interventions as well as attitudinal changes. Additional policy initiatives can supplement both these approaches and the self-help efforts of the Hispanic community. In particular, the National Council of La Raza encourages the House Committee on Ways and Means to advocate and adopt policies that:

- **Address the lack of benefits, especially health care, in low-wage employment.** A health care "safety net" must be established for all low-income families since recent analyses by NCLR and others have shown that the public health insurance system does not extend to the vast majority of the working poor. If low-income Hispanics were not working, they would be protected by Medicaid; but because they choose to work, even for very low wages, they must shoulder the burden of foregoing health insurance and, often, health care. At a minimum, income — not welfare use — should determine health care program eligibility.
- **Improve the "human capital" characteristics of Hispanic adults and out-of-school youth.** Even if equal educational outcomes for children could be achieved immediately, there is still the question of assisting Hispanic adults who constitute a significant part of the current labor force and require improved workforce skills to compete in a rapidly-changing labor market. The long-term decline of manufacturing employment and the concomitant growth of the service sector has had particularly severe, negative effects on Hispanics. Because Hispanic workers are concentrated in industries with declining employment, they have rates of worker displacement that are higher than those of any population group. Upcoming employment and training reform efforts must expand the capacity of federal programs to address the nation's training needs. Similarly, current consideration of strategies to address concerns relating to work-readiness, in the form of apprenticeships and school-to-work efforts, should ensure that Hispanics are equitably represented and adequately served.
- **Recognize the necessity of involving community-based organizations in the formation of new programs and policies.** In the Latino community, community-based organizations have assumed a special responsibility and demonstrated their ability to successfully improve the status of Hispanic families. Too often, however, policy makers neglect to consider the critical role community-based organizations play in shaping evolving agendas and policies.

In addition, it is essential that federal anti-poverty efforts recognize and consider the growing proportion of low-wage jobs in the U.S. labor force. Individual self-sufficiency must be viewed in the context of the choices and limitations presented by the changing U.S. economy. Such policies must also recognize employers' roles in perpetuating economic instability among workers. For example, discriminatory hiring practices could be addressed through more effective civil rights enforcement. Involuntary part-time work could be addressed by enhancing mechanisms for employer scrutiny and accountability — it should not go unnoticed when employers hire workers part-time solely to avoid providing benefits. The current limitations of the economy in creating jobs that both are accessible and provide wages that can maintain a family above the poverty level is a critical issue.

Finally, any comprehensive Latino anti-poverty effort must focus special attention on certain subgroups. As Latino poverty research and analyses have demonstrated, the magnitude of disadvantage is particularly severe for Hispanic women, Latino children, and Puerto Ricans. Specific initiatives for, and assessments of the impact of various policy options on, these groups are especially important.

Hispanics represent an increasingly significant segment of workers and taxpayers who will ensure the solvency of private and public services and benefits, such as Social Security. Therefore, reducing the inequality between Hispanics and the rest of U.S. society is not simply a moral preference, it is a social and economic imperative. The need to address the alarming increases in poverty among Hispanic families and children is crucial -- not simply for the Hispanic community, but for the future growth of the nation.

PARENTS FOR JUSTICE

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Advocacy for Low Income Single Parents in New Hampshire

Testimony of Sara Dustin
Director, Parents for Justice
to the

Subcommittee on Human Resources, Committee on Ways and Means
U.S. House of Representatives
on

Historical Trends in Poverty and Family Income

Concerning the underlying historical causes of the especially widespread and severe poverty of children and their caretaking parents in our present society

The immediate economic and social causes of the current and increasing poverty of women and children in our society are pretty clear and no particular mystery to anyone. The first main cause is the erosion of the family wage over the last three decades. A working class family that could be supported by one wage earner in the 1950's now requires two full-time wage earners to command the basic necessities. This change has left the working class single parent unable to earn enough to support her family in an ordinary week's work. It has also impoverished the intact working class family because, while with two workers, it can command the necessities of life for their children, this has only been accomplished at the expense of removing the energy of the mother from the household to a degree which erodes the quality of life and leaves too little time to execute the task of child rearing properly.

The second main cause for the poverty of our children is the destabilization of the two parent family over the same period, starting with the extraordinary increase in the divorce rate in the Sixties, and culminating in the current trend among a significant portion of our young parents to avoid matrimony altogether. This has meant that there is a much larger proportion of economically disadvantaged single parent family units in our society.

Since these causes of the poverty of children are well known and will undoubtedly be documented and analyzed with far more skill and expertise by the witness you have invited to your hearing on the matter, than I can muster, I will confine myself to the discussion of two long-term social phenomena which have so far been overlooked in the debate over the causes of family dissolution and poverty, but which I believe lie at the roots of this contemporary phenomenon.

I. The Movement of Women from the Home to the Job Market as a Contributing Factor in the Impoverishment of Children

Our century has been marked by two major changes in the behavior of women. The second, which I shall discuss first, is the large scale movement of upper middle class and middle class women, who were heretofore exempt from participating in the out-of-home work force, into the job market at the beginning of the 1960's. It is this movement, which, over the last 30 years, has made the two-income family the norm rather than the exception.

It is a fundamental principle of economics that the prices of inelastic goods increase or decrease to use up all of the money available to buy them, at least in a free market economy like ours. This is particularly true of housing, which is both indispensable to the consumer, and difficult to increase in quantity very quickly. Rentals and house purchase prices very closely reflect the amount of money left over in the average family budget after other indispensable necessities like food, transportation, heat and light are purchased.

Under the impact of the two-income family, the price of a middle class house went from about \$35,000 in 1961 to \$70,000 a decade later, and \$120,000 ten years after that. In the same period the rent on a working class apartment in the New Hampshire North Country went from \$120 a month to \$320 a month. While this was the most dramatic change, the prices of other family necessities, as we all know, have re-adjusted as well, making the second wage, which began as an option in the 1960's, mandatory in the 1990's.

I believe that the wide-scale movement of women who had previously worked at home into the wage economy has had a profoundly inflationary effect which has only begun to be analyzed. When this inflation first began to occur, economists batted around unsuccessfully trying to explain its size and its persistence. It was widely attributed to Vietnam War spending and too much big government. Surely the outlays of the military establishment and the War on Poverty contributed to inflation during the late 1960's and early 1970's, but they can hardly have matched the economic impact of this massive change in workforce participation by a full 30% or so of our population. I believe the impact was overlooked because women had not yet penetrated the world of academic economics or government economic analysis, to any significant degree at the time. The men who occupied these positions were not in the habit of paying much attention to what women did, and their thinking was handicapped by the prevailing social assumption of the time that the activities of women did not have much importance or impact on the national level.

Also, classically, the movement of extra workers into the job market should have led to an increase in the production of material goods which would have matched the extra income available to buy them, and canceled any inflationary push from increased wages. However, the middle and upper class women who moved newly into the job market in the 1960's did not go to work on factory production lines, or in the fields of the Midwest and California or the construction industry, at least in very great numbers. They mainly moved into pink and white collar jobs, massively increasing the size of the workforce available to do paperwork. Thus the movement has very probably increased the cost of delivery of many already available goods and services. Certainly it has made possible the massive proliferation of paperwork which has also marked our society over the last three decades, and other modern phenomena in the paperwork field, such as the massive expansion of the insurance industry.

A good example is the contemporary doctor's office. When I was a child, doctors dispensed their services themselves, out of offices in their homes, with a little bookkeeping help from their wives. Their fees were set so they would support a couple and their children comfortably.

This year when I go to the doctor's, I go to a separate building where I am confronted with a series of counters staffed by seven or eight women, who do reception, appointments, billing and insurance claims, escorted to a cubicle by yet another woman, interviewed by a nurse, and sometimes checked out physically by an assistant who is also a woman who sometimes performs procedures that are later repeated by the doctor. My fee must not only support the doctor and his family, but also all these other females as well. I suspect that this scene is repeated in other work environments, especially those in which high status men have the income, the freedom and the social power to indulge their inborn propensity for empire building and office harem accumulating.

Conclusion: Thus paradoxically, the wide scale movement of women into the workforce, which logically should have increased low-income family prosperity and the prosperity of children, has instead increased the economic pressures on all middle- and low-income families by inflating the prices of the goods and services they must buy. Because the work of child rearing has remained outside the cash economy except for the very small payments allowed under the Aid to Families with Dependent Children program, it also means that all lower tier families in which the energies of the mother are tied up in this task will automatically be poor. Since very young children require more of their mothers' time and energy than older ones, the poverty rate among children in these age groups will be especially high. In addition, a very high percentage of the children of single parents will be poor because even if she is not home on welfare, but working, she, like the ordinary male single earner of the two-parent family with mother at home, cannot possibly compete with the two-earner family and provide her family with sufficient income to meet their needs (unless she has more than ordinary working class job skills).

This effect will probably be intensified if we adopt a version of welfare reform which puts even more women into a workforce already suffering from labor saturation. This is bound to depress wages still further in relation to the cost of family necessities, increase the number of make-work jobs, and, by increasing the ready supply of cheap female labor, encourage further the socially wasteful use of it in the further proliferation of paperwork and redundant staffs.

II. The Replacement of Breast Feeding by Bottle Feeding as a Contributing Factor in the Impoverishment of Children

The second major change in the life and behavior of American women took place earlier, in the late 1930's and early 1940's. It created profound changes in our child-rearing patterns, and consequently, I believe, in the capacity of our children to reach secure and productive adulthood successfully, and to maintain stable marriages.

In the late 1930's and early 1940's, large numbers of women gave up breast feeding their infants and put them on the bottle. This revolution was made possible by the coming together of the technology which ensured a safe public milk supply, the perfection of a sterile and effective delivery system (the rubber nipples glass baby bottle), and the invention of formulas based on the modification of cow's milk which infants could tolerate and which sustained healthy growth. This technology permitted the early separation of mother and child, freed women from the home, and made possible their subsequent movement into the outside workforce which we are now experiencing.

It is also this revolution which makes it possible for the current administration to propose welfare reforms and approve waivers which demand that the mother of a modern infant separate herself from him immediately to immerse herself in preparations to support him, and to be entirely out in the workforce within two years. In 1935, these measures would have been unthinkable. In order for that infant to survive, it was necessary for the mother to devote two full years to nursing him. The first year was necessary because up to age one, the child could not be counted on to reliably and safely digest another milk supply. At age one, most children can tolerate cow's milk, but the existing milk supplies were prone to contamination with bacteria. The wise mother kept up her nursing so that she could see her child safely through the dreaded second summer, when bacterial growth in milk reached its height to avoid losing her to diarrhea and dehydration.

Emotional and Physical Neglect of Infants: Unfortunately, the revolution which freed mothers from this time-consuming and energy-draining task also opened the door to the possibility of much greater physical and emotional neglect of infants. It was very hard for a 1930's mother to fail to satisfy her infant's emotional need for closeness to mother, or to be unaware of its physical needs. She had to cuddle it in her arms and hold it close to her body for a minimum of twenty minutes every three or four hours, all day every day; longer if the child was a weak nursur. Mothers also slept with their infants so that they could tuck them in to nurse and go back to sleep without ever really waking up (a practice that came to be looked upon with much horror by "modern thinking" members of the medical profession from 1940 until very recently).

Infants who were inadequately cuddled and nursed did not survive to become neurotic, troublesome, needy adults; they died, as contemporary records attest. According to turn-of-the-century reports, for example, the death rate in the orphanages for infants abandoned by unwed mothers, because the social penalties for illegitimacy were so ferocious few women dared brave them, was 90%.

The development of bottle feeding made it possible to prop the infant up on pillows, stick a bottle in its mouth, and go on about the housework, a sight that was commonplace in the 1940's, and still occurs today among the uneducated, and is a prominent factor in the production of the failure-to-thrive infant that ends up on the child protection service's doorstep. The damage made possible by the technology was further compounded by the advice of physicians at the time. They urged parents to produce an independent and emotionally disciplined personality in their child by leaving him strictly untouched in his crib between bottle feedings, which were to be delivered on a strict four hour schedule no matter how much or how hard the child cried.

Fortunately, not too many mothers had the heart to stick to such a regimen very long, for we now know this is the perfect prescription for producing a child who is, according to the bent of their nature, extremely angry, defeated and unable to make emotional demands on other people or deeply distrustful of the reliability and reward of relationships. We also know that these infantile feelings of rage, defeatism and distrust are carried on into adulthood, where they resurface to poison the intimate relationships of the person who has had these early experiences.

It is an interesting fact that the enormous spike in our national divorce rate occurred almost exactly thirty years after the widespread adoption of bottle feeding and the promulgation of this unwise child rearing advice, just long enough for infants of that period to grow up, get married, have their marriages go to pieces, and get divorced. The incident that brought it to my attention that there might be more than a casual connection between these two phenomena was the arrival at the Parents for Justice office of a mother involved in one of the most bruising child custody cases in the country. I

spent a long slow day with her at the village swim hole attempting to calm her down enough to think straight, and during that day she spoke to me at length about her husband.

He was, she said, hot tempered and occasionally violent. He was a stickler for proper behavior and once backhanded their one year old in his highchair for spilling food on the floor. Now that she had left him her two year old daughter was coming back from her weekend visits with yeast infections and other suspicious irritations of the vagina. These symptoms were suspicious enough, especially when combined with the girl's evident distress, to decide the N.H. Division of Children and Youth to ask the courts to bar him from unsupervised visits with the child.

In addition he had, during their marriage, made constant efforts to prevent her from breast feeding their children, a process which incensed him. His wife had been raised in a European country where breast feeding was still the norm, and she saw no reason why she should relinquish this right. When she insisted, he reluctantly agreed to allow her to nurse each of them one year; after that, he insisted, it was biologically unnecessary and a perverted self-indulgence on her part to continue, which she had to stop. He actually went so far as to tear a nursing child from her arms in an attempt to enforce this dictum.

In an attempt to bring her around to his way of thinking, he called in his parents to back him up. They belonged to a communal religious sect that required the mothers of newborns to place them immediately in the group's nursery and go out to their jobs so that they could bring back money to support the church. They agreed wholeheartedly with their son's perception of what a proper wife should do. Her mother-in-law sat down with her and explained how she had raised her son. She had followed doctor's orders exactly, leaving him at all times in his crib except at feeding times, which were timed by the clock. Although as an infant he would scream and whimper all day and part of the night, she was strong, the mother-in-law proudly explained, and never gave in and picked him up. She urged her over-indulgent daughter-in-law to adopt the same system with the grandchildren.

It was easy to discern from this horrifying story the roots of at least some of the husband's anger and other pathology. The story was also very suggestive when applied to similar phenomena occurring in our society as a whole. We know that at the heart of each possessive and abusive lover is almost always a frightened child who is trying with infantile intensity to ensure that the person they have substituted for Mother in their emotional lives will never be able to leave them, and is therefore compelled to destroy the personal freedom and self-esteem that would enable the mate to separate from them. Is it possible, then, that the technology that permits us to raise a child successfully, even if the mother is grossly inattentive and unavailable during its infancy, is responsible for the contemporary proliferation of new stories about women who fled their relationships and were subsequently stalked and killed by their ex-mates?

At a less dramatic level, is bottle feeding technology a factor in the number of marriages that are crumbling because the wife can no longer tolerate the abusive, controlling and self-esteem-destroying behavior of her mate, because we are producing more adults who are bringing unfulfilled infantile needs for the presence and attention of Mother to their marriages? Many of the women I talk to who have endured this report that it was the birth of a child that triggered their mate's abusive behavior. Like the father in the custody battle, these men were unable to tolerate the requirement that they share their wife's time, attention and love with the new baby.

What about the ordinary case, where the bottle-feeding mother was not grossly inattentive or withholding of physical affection? Certainly the vast majority of bottle fed infants grew up to be perfectly adequate adults. Still, bottle feeding, especially if the mother takes advantage of it to separate herself earlier and more often from the baby, create a weaker attachment between them than exists with the breast fed baby. Since emotional responses and one's expectations of others are largely established in infancy it is reasonable to expect that on the whole, and on the average, children raised by bottle would be more distant and self-protective in their intimate adult relationships, and less strongly attached to their mates, than their breast fed counterparts, and that their commitment to sustaining their marriages would be weaker. This does indeed describe pretty accurately the behavior we saw that set the divorce rate soaring 25 years ago. In a strange way, the child rearing experts of the 1940's did succeed in producing more independent individuals, though they were not necessarily more disciplined. Certainly the young adults of the 70's and beyond display a far lower tolerance for their mates and a far greater preference for going it alone than their forebears. Unfortunately, this was not exactly the kind of independence these experts had in mind.

Modern medical advice on child rearing is much more benign than the advice of the 1940's. Obstetricians encourage breast feeding, and mothers who are bottle feeding are instructed to cuddle the child while they do it. If I am right, then we should expect to see improvement in the ensuing generation's capacity to attach to their mates and sustain marriage. Except for one little problem: the economy no longer allows most mothers the leisure for these indulgences. Unless the new mother has a mate who can command the wages of two working class or lower middle class wage earners himself, she must return almost immediately to her job. And even the mothers of the fortunate families feel compelled to get back into the workforce as fast as possible as well, so that the family does not lose its middle-class financial status, its house in the suburbs, the newer of its two cars, and its eldest child's college fund. And while most college-educated women these days try to breast feed their infants for as long as they can, at least three months, the resumption of the practice among women with less education is limited by the feeling often expressed to me, that feeding a child that way is low-class, degrading, and too explicitly sexual ("yucky" and "embarrassing").

Conclusions: If my observations and reasoning are correct, in order to lower the rate of family breakup and the creation of economically unviable single parent families in the future, it is necessary to ensure that mothers of infants have the leisure to raise them intimately, as their grandmothers did, now, and are given every social support to do so.

Unfortunately, our economy makes this impossible for the majority of women, who cannot afford to stay home from work long enough to do this.

In order to enable women to care for their infants, themselves, and to immediately alleviate the poverty of children in single parent households and intact lower-economic-tier families with mothers at home, it is necessary to replace the missing second paycheck with some other form of family income. For intact families this support is needed only during their children's early childhood. For single parent families, the need will last until the parent has remarried, or she has acquired job skills which enable her to command a middle class salary on her own.

The tested way to do this is the European-style Family Allowance. The more radical way would be to declare the rearing of infants and toddlers "work," which it surely is, and compensate it at a reasonable rate. The system of positive income tax payments now in place would also work, if the EIC were expanded to compensate for net income (after child care expenses) of the second job for intact families with children under three, and made available as a supplement to single parents at home with young children or going to school or job training under the AFDC program.

Unfortunately, the Congressional response so far to suggestions like these has been "You're right, but where do we get the money?" The crisis in the American family is not seen as an overriding emergency like the Cold War or the current savings-and-loan crisis. It should be. The separation of mother and infant that occurred in the 1940's and 1950's was mild compared to the separation we are requiring now, because in the earlier period mothers still stayed home with infants. Now the working class New Hampshire mother typically puts her infant into day care at two weeks, and absents herself from him for ten or more hours a day to generate income. It looks like we are about to ask the single parent, who up to now has at least had a respite in which to raise infants and toddlers herself on welfare, to stop fooling around and wasting other people's money, and do the same.

Throughout all of humankind's evolution, up to 50 year ago, infants and small children were kept very close to their mothers. It is clear that mother can shake this relationship without suffering serious damage. But I do not think the human infant can adjust in 50 years to the loss of a relationship which not only provided him with physical sustenance, but also enormous numbers of subtle physical and emotional inputs and triggering signals that ensured his social and psychological growth into a successful and loving adult.

The divorce rate of the 70's may have been appalling to you, and the current surge in domestic violence and the decision of a large fraction of our young parents not to attempt marriage at all probably looks worse, but just wait. It has only been 10 or 15 years since we adopted the practice of sending the mothers of infants immediately back into the workplace without their babies beside them. I don't think we've seen anything, yet.

Statement for the Subcommittee on Human Resources,
Committee on Ways & Means, U.S. Congress

Submitted by the Welfare Reform Coalition of
Washington State, to accompany hearings on

"Historical Trends in Poverty and Family Income."

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In Michael Harrington's 1962 classic, *THE OTHER AMERICA*,
he wrote:

Throughout, I work on an assumption that cannot
be proved by Government figures or even docu-
mented by impressions of the other America. It
is an ethical proposition and it can be simply
stated: In a nation with a technology that
could provide every citizen with a decent life,
it is an outrage and a scandal that there should
be such social misery. A fact can be
rationalized and explained away; an indignity
cannot.

What shall we tell the American poor, once we
have seen them? Shall we say to them that they
are better off than the Indian poor, the Italian
poor, the Russian poor? That is one answer, but
it is heartless. I should put it another way.
I want to tell every well-fed and optimistic
American that it is intolerable that so many
millions should be maimed in body and in spirit
when it is not necessary that they should be.
My standard of comparison is not how much worse
things used to be. It is how much better they
could be if only we were stirred. (pp. 18-19)

We offer our statement in that spirit, and in any case
trust that by now you have received ample statistical informa-
tion on national trends related to poverty and family income.
Members of our coalition have participated in similar inqui-
ries over the years, along with the Congress, the Executive
Branch, the states, and countless public and private research
organizations. We have all been meticulously documenting the
facts about poverty for decades. That has been a particularly
sobering task in recent years, as poverty has continued to
rise, while family income remained static or declined.

Rather than add to that already massive body of evidence
we offer instead some thoughts for that part of your inquiry
relating to "employment, public assistance, and urban policies
which could reverse these trends." In particular, we ask that
you consider the following observations as you approach the
question of welfare reform.

1. Welfare reform may be pursued for any number of
reasons, but we believe the primary goal of welfare reform (or
indeed of any public assistance, employment or urban policies)
should be: "lifting families out of poverty." Put another
way, the primary goal of welfare reform is not: saving money;
reducing the size of the welfare rolls; punishing single
parents; or pushing women with children into sub-poverty jobs.
Ensuring the well-being of children, for example, should
remain at the heart of any program for family welfare.

That goal can be achieved only in part through paid employment; on that the evidence is clear. Some of those who live in poverty cannot be expected to become self-supporting, others should not be. Among the former are some of the roughly two-thirds of low-income adults with very low levels of literacy; those affected by the "widespread existence of learning disabilities" that the U.S. Department of Health and Human Services has noted among AFDC recipients (the U.S. Department of Labor estimates that 25-40% of those on welfare may have learning disabilities). Among the latter are those in the welfare system who are caring for seriously ill or mentally or physically impaired family members.

Nor is it clear that children are always better off when single parents are required to take low-paid work outside the home. Meaningful welfare reform requires us to look at the families involved and determine what makes good sense in enhancing their welfare. It would require us to recognize the value of a parent staying home to care for children, and the importance of giving public support to this choice. Real welfare reform would leave no family with a sub-poverty income, and preferably that all families have an opportunity for after-tax income at 50% of median income (whether from employment, public assistance, child support, tax benefits, or some combination, depending on the family).

And so long as wages remain low, the trend toward part-time work continues, and the labor market remains a discriminatory one, even the employable will find that jobs alone are not enough. If reducing poverty is the goal, then tax policies, child support enforcement, and wage policies are all critical.

2. In the 1960s when Harrington's book was written and a War on Poverty newly declared, basic job training, minimum wage jobs, and in some cases income supplements, would have gone far toward reducing family poverty. By now, however, conditions have so changed in other key areas of life that any hope of escaping poverty for more than short periods depends on something more: our ability to generate more low cost housing, more accessible health care, and more affordable quality child care. Changes in the labor market and the skills required for steady employment have also changed the nature of the training or education required of those seeking to escape poverty through jobs.

3. Experience here in Washington state with the Family Independence Program (a recent welfare reform effort) confirms these observations. FIP has been characterized by some in the media and elsewhere as "a failure." We believe that is an inaccurate representation. The biggest failure associated with FIP was the failure to adequately fund those elements that might have made it a true opportunity for low income women to move their families up and out of poverty.

Among the critical elements short-changed by inadequate funding were: adequate child care, competent skills assessment (including screening for learning disabilities), training and education needed for jobs paying more than a poverty wage, and reasonable caseload size. But perhaps most important, FIP did not include job creation at a time when the local economy was losing, not gaining, the sort of jobs that might have let women on welfare escape poverty.

Underfunding in all these critical areas quickly left FIP looking much like the very program it was intended to reform, so it is not surprising if its results were similar.

Meanwhile, the stock of affordable housing was declining, while the cost of the housing available was going up. Last year more than one-third of the the homeless seeking shelter in King County (where Seattle is located) and 44% of those seeking shelter in Snohomish County (where Everett is located) were recipients of AFDC. Finding a place is only part of the answer: about one-half of poor renters are paying 70% or more of their incomes just for shelter. It is hard to find or keep a job while living in a shelter or paying rent too high even to leave money for the bus fare to work.

Even so, against all these odds, participants and staff associated with the FIP program believe it changed the culture of the welfare offices to one that was more respectful and more helpful. Those who received the full range of services found it a true opportunity. And close observers of FIP believe its central premise remains true: a voluntary program offering an intensive, long-term investment in women and their children can make a positive difference in their lives.

4. Here in the NorthWest as elsewhere, demands on the welfare system are related to the overall economy (in our case, in the decline of the resource-based industries), and the particular problems faced by rural areas. Between 1980 and 1987, nearly 2/3rds of the increasing welfare caseload in Washington occurred outside the four major urban counties of the state (King, Pierce, Spokane, and Thurston). The highest incidence of AFDC use is in the agricultural Yakima valley, not the heavily urban area around Seattle. Even families with two parents and recent attachment to the work force face problems if they live in rural areas: the most rapid growth in AFDC-E occurred in distressed rural counties like Benton (640%), Franklin (350%), Pend Oreille (330%), Klickitat (290%). Local officials may not be bragging about the fact, but public assistance expenditures represent an important stabilizing force for many of these distressed communities.

5. And if the economy is not generating enough good jobs, even education and training -- one key to long-term income stability -- will not be successful. Clearly, training more low-income people for the same or fewer good-paying jobs won't be enough to reduce poverty; job creation is neccessary.

6. As the above points make clear, most of the answers to the welfare "problem" lie largely outside the welfare system: in better wages, more effective child support enforcement, and fair tax policies; in the state of the economy and its ability to generate good, full-time jobs; in decisions about housing, health care, and child care policies; in treatment for the mentally ill and addicted; in screening and help with literacy, and learning disabilities; in reforming a labor market that pays women and people of color less.

7. Moreover, those are not conditions that individual welfare recipients can change, and particularly not in two years. Any welfare reform premised on the assumption that low income lives (many of which include elements of disability, trauma, stress, or abuse) can always be turned around within two years is doomed to create more harm than good.

8. In much of the debate about welfare, key points are often ignored. Three will illustrate the point.

(a) References to the need to run welfare more like a business have to keep in mind that the analogy is limited: government is not a business; public programs have to help good risks and bad, those with high needs as well as those with low needs; and needs-based programs will grow in times of growing need.

(b) The issue of teen pregnancies, while a matter of concern, too often focus solely on the teens, even though nationally, 50-75% of the fathers of the babies are adult men.

(c) A small but growing body of evidence indicates that those long-term on welfare may be disproportionately households in which someone is ill or impaired. That suggests that those families, by caring at home for family members who might otherwise need costly out-of-home care, may represent substantial savings to the welfare system.

9. Whatever is or isn't done in the name of welfare reform, attention must be paid to the critical matter of welfare family incomes. In Washington state as nationally, the income provided by AFDC -- a program which serves more than half the children in poverty in our state -- has declined dramatically from 117% of the poverty line in 1969, to 54% of the poverty line in 1993. (see table attached).

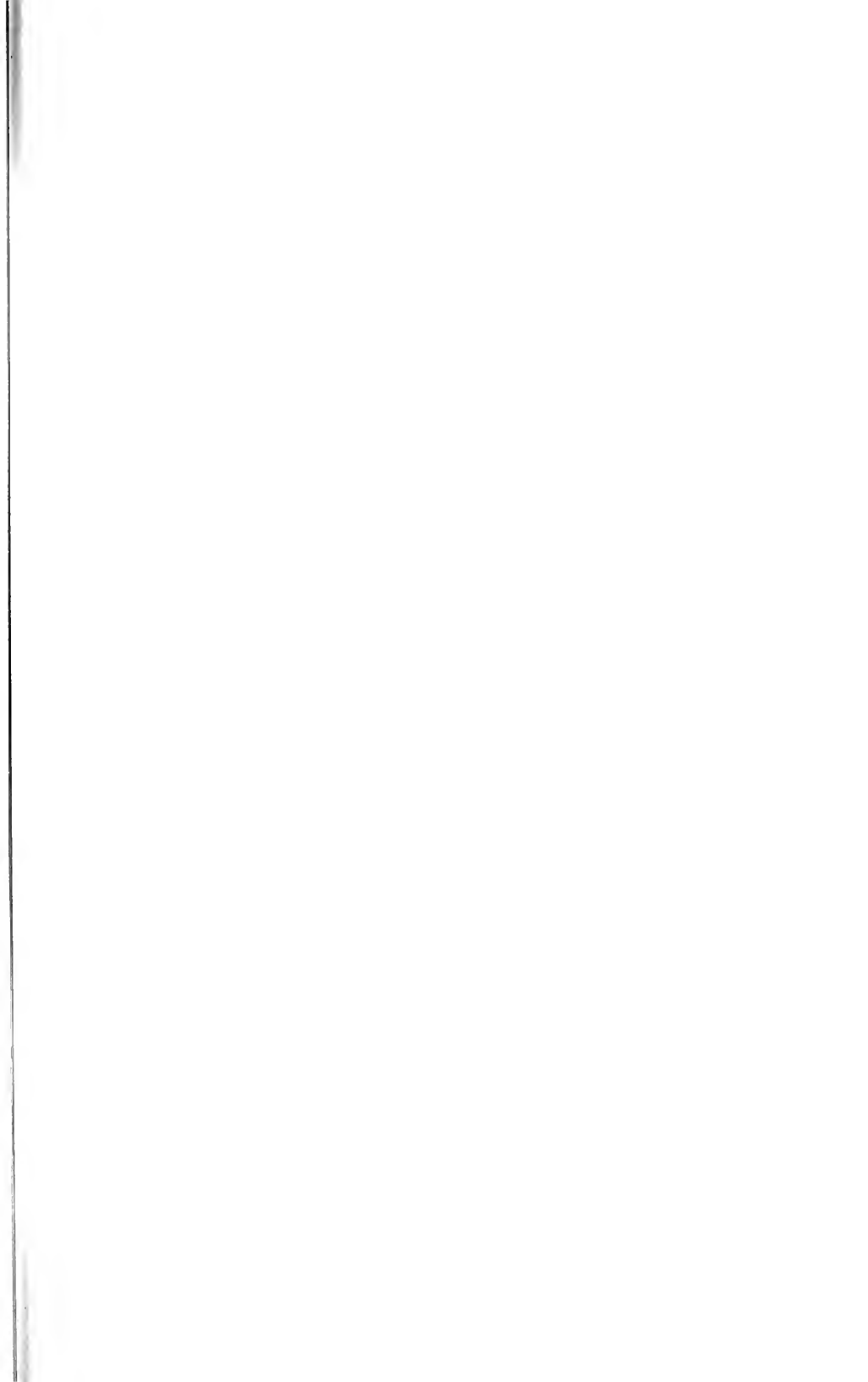
The consequences of low welfare grants are seen in hunger, homelessness, poor health, poor school performance, emotional distress, and family breakup. In a recent survey of 90 experts on children's issues, the Washington Children's Health Research and Policy Group found that the most critical problem children face is poverty. And AFDC represents government-guaranteed poverty. At a time when the United States remains one of the few industrialized nations with no family allowance, no national health program, no paid maternity leave, and little subsidized child care, it would seem useful to come into the twentieth century before the twenty-first arrives.

10. Welfare reform should be viewed primarily as a vehicle for reducing poverty. That is particularly important now when violence -- urban violence, domestic violence, youth violence, random violence -- has moved to the front of the public agenda. Because, as Martin Luther King and others have pointed out, poverty is a form of violence.

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